



New Zealand Income Insurance Scheme

Federated Farmers of New Zealand

26 April 2022



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SUBMISSION ON THE NEW ZEALAND INCOME INSURANCE SCHEME

TO: Social Unemployment Insurance Tripartite Working Group, Ministry of Business, Innovation and Employment

SUBMISSION ON: The New Zealand Income Insurance Scheme

DATE: 26 April 2022

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SUBMISSION ON THE NEW ZEALAND INCOME INSURANCE SCHEME

1. INTRODUCTION

Federated Farmers of New Zealand welcomes the opportunity to submit to the Social Unemployment Insurance Tripartite Working Group on the proposed New Zealand income insurance scheme.

Federated Farmers is strongly opposed to the introduction of a compulsory income insurance scheme. A compulsory levy set at 2.77% of income below \$130,911 will be a significant new cost for employers (1.39%) and employees (1.39%) alike. If implemented this will add to the existing reductions of the KiwiSaver and ACC levies, which already impose a significant reduction to an employee's take home wage.

Our organisation believes that employees and employers should be able to decide to what level, if any, of risk they choose to insure themselves against. In a time of significantly increasing household costs, a Government implemented deduction in workers' pay puts unnecessary further pressure on workers. This is particularly true for a large segment of the agricultural workforce which will never be in a position to benefit from the scheme and are operating in a period of extremely low domestic unemployment in their sector. Yet they will be forced to pay into it.

In short this is a bad idea at the worst possible time. It should not proceed.

2. POSITION SUMMARY

Because of the structure and makeup of agriculture, the proposed income insurance scheme offers few advantages to many that work in the sector. A significant number of farmers are still the sole permanent employee of the business that they own, meaning that they will not make themselves redundant. 70% of businesses within agriculture, forestry, fishing have 0 employees. 23% with 1-5 employees, 4% with 6-9, 2% with 10-19, and 1% 20-49 employees. Approximately 12% of the dairy workforce are also migrant workers on temporary visas, who will pay into the scheme but not be eligible to claim. This is an unfair deduction from workers who are largely in New Zealand to earn an income to support their families in their home country. A number of other people employed on farm and in the various supporting industries are also set to not benefit, such as contract milkers and shearers who are paid on piece-rates. These workers should not be required to contribute to the scheme.

Of greater concern to the industry is that we believe this scheme may act perversely as a disincentive for people to return to work or attempt a career change to work in the primary industries. When the COVID-19 pandemic began and there were predictions of unemployment at 10% or greater, many agricultural industries 'geared up' to attract job changers, seeing this as an opportunity to recruit skilled and motivated people looking for work. These unemployment spikes never occurred, and many rural employers are facing more challenging conditions than pre-pandemic.

Given the ability for people to remain out of work for a period of up to 7 months while still accessing the majority of their previous income, we are concerned that this proposed scheme will act as a further barrier to those workers who may have considered making a shift under different circumstances. A level of financial pressure is a key motivator when people are seeking new

employment, and as farms offer rates far above the minimum wage and often include accommodation and other benefits, rural employers consider positions on farm would be a good option for many that are made redundant and seeking work.

Our concerns also extend to the evidence provided by ACC that the longer an employee stays off work the less likely they are to return to employment. We consider there are many similarities with this scheme and those in the ACC scheme, and workers who are subsidised to remain off work for the extended period may have difficulty returning to the workplace.

Our organisation believes that employees and employers should be able to decide to what level, if any, of risk they choose to insure themselves against. If the proposal is to proceed, we recommend that it is on an opt-out model similar to Kiwi Saver, where employees can voluntarily leave the scheme if they choose to do so.

Federated Farmers appreciates the efforts of the Ministry of Business, Innovation and Employment (MBIE) team to engage with our organisation and attempt to further explain the benefits of the proposal. We have responded to the questions posed in that meeting below.

3. MBIE AGRICULTURE FOCUS QUESTIONS

What's the nature of the risk of displacement/redundancy in the farming sector? (How common is it, what sorts of events lead to displacement?)

Redundancy of workers is currently very rare in agriculture in New Zealand. The primary industries are suffering a significant shortage of labour for both on-farm and supporting roles. The urbanisation of New Zealanders has led to only 10% of the population living in rural areas, coupled with an ageing demographic in the rural workforce. This sits alongside domestic unemployment continuing to drop and current and proposed border settings slowing access to much needed international workers for the sector. In April 2022 there were over 1200 on-farm jobs advertised in the dairy sector on one employment website alone.

These factors make loss of employment very unlikely for most people employed in the farming sector. Over the last two years in the sector we have seen employers continually attempting to improve rates of pay, working conditions and accommodation in an attempt to attract and retain workers on-farm. Employees continue to be highly mobile, particularly in the dairy sector, as there are continual offers of better rates of pay and working conditions in an attempt to attract experienced staff.

This scheme is a solution looking for a problem that simply does not exist in the farming sector.

What's the nature of the risk of health conditions and disabilities in the farming sector? (Are there particular non-accident health conditions that affect people working in the sector?)

The primary industries face challenging work conditions, with the physical nature of the work and landscape of New Zealand contributing to ongoing accidents and injuries in the sector. While this is an issue that the industry continues to address, agricultural workers also have many advantages to their lifestyle, with regular exercise and physical work lessening the risk of health conditions that can be contributed to by a sedentary lifestyle such as diabetes, heart disease and obesity.

Instead in the current employment climate, we consider the risk of understaffing or inability to recruit workers as one of the key risk to rural wellbeing. WorkSafe and Coroner's reports often point to fatigue when considering accidents on farm and when surveyed our membership regularly report an inability to recruit appropriate numbers of staff as an ongoing issue. Given the risk that this scheme will make it harder to attract those who have become unemployed or that existing workers may seek redundancies, there are concerns from our sector that this scheme may actually contribute to an increase in risk to those working in agriculture.

We are also concerned that many people develop health conditions and disabilities due to activities or environmental conditions outside of the work environment, which could mean businesses will be paying too much for the cost of this aspect of the scheme. Accidents are different as the cause can usually be clearly identified, including as to whether they are work or non-work.

We also worry that providing generous payments for health conditions and disabilities could greatly expand the number of people using it and therefore the cost of the scheme. The experience in the 2000s of ACC providing for 'free' physio consultations saw massive cost blowouts and required the restoration of co-payments to rein it in. We have concerns that a medical capacity assessment by a health practitioner would not be a sufficient check on the potential for abuse of the scheme.

What would the implications be for farmers as employers and business owners?

Many farms in New Zealand are owner operator businesses. They owner is often the sole permanent employee of the business and therefore unable to realistically benefit from the scheme. For employees and staff this proposal is another cut from their take home pay, one which most in the agricultural industry will be unlikely to see any benefit from. They should not be forced to pay into it.

Would the proposal increase the sector's resilience to economic transitions, such as climate and technological change?

Federated Farmers considers this will have little to no impact on climate and technological impact for farming. In fact, it could be harmful to it. Labour supply remains a major constraint for farmers, including for adaptations and technological change. It is very difficult to change farming systems if there are not the people needed available to help make that change.

What are the implications for the sector of the additional costs of the proposed scheme?

Farmers are facing an unprecedented increase in costs with fuel, fertiliser, transport, labour and vehicle and machinery costs all increasing dramatically in the last twelve months. This is another additional cost that employers have to cover that cannot be passed on to the consumer. In a time of significantly increasing household costs and low domestic unemployment, a further Government implemented deduction in workers' pay packages also puts unnecessary further pressure on workers. This is particularly true for a large segment of the agricultural workforce which will never be in a position to benefit from the scheme for the reasons listed above. They should not be forced to pay into it.

What changes to the proposed scheme would reduce risks and increase value for the farming sector?

Federated Farmers is strongly opposed to the implementation of this compulsory scheme. We consider greater accessibility to voluntary income insurance, or an opt-out model like Kiwi Saver, would be the fairest way to increase access to this type of insurance cover while not imposing it on everyone in the workforce.

4. SUMMARY

Federated Farmers is opposed to the introduction of a compulsory income insurance scheme. Our organisation believes that employees and employers should be able to decide to what level, if any, of risk they choose to insure themselves against. If the proposal is to proceed, we recommend that it is on an opt-out model similar to KiwiSaver, where employees can voluntarily leave the scheme if they choose to do so.

5. ABOUT FEDERATED FARMERS

Federated Farmers of New Zealand is a membership organisation, which is mandated by its members to advocate on their behalf and ensure representation of their views. Federated Farmers does not collect a compulsory levy under the Commodity Levies Act and is funded from voluntary membership.

We have a long and proud history of representing the needs and interests of New Zealand's farmers and rural communities, helping them to thrive.

Federated Farmers empowers farmers to excel in farming. Our key strategic outcomes include provision for an economic and social environment within which:

- Our members may operate their business in a fair and flexible commercial environment for the long haul;
- Our members' families and their staff have access to advocacy, advice, insights, and services such as essential to the needs of a vibrant rural community; and
- Our members adopt responsible farm management and sustainable food production practices.

ENDS.