

26<sup>th</sup> April 2022

Ministry of Business, Innovation, and Employment  
Social Unemployment Insurance Tripartite Working Group  
Via email to [incomeinsurance@mbie.govt.nz](mailto:incomeinsurance@mbie.govt.nz)

**RE: Consultation on A New Zealand Income Insurance Scheme**

1. Retail NZ is a membership organisation that represents the views and interests of Aotearoa New Zealand's Retail Sector. We are the peak body representing retailers across Aotearoa, with our membership accounting for around two-thirds of all domestic retail turnover. The total value of transactions in the sector throughout 2021 was upwards of NZD\$6 billion.
2. Aotearoa's retail sector comprises of approximately 27,000 businesses and employs around 220,000 Kiwis.
3. The economic environment retailers operate in has rapidly shifted since the introduction of COVID-19 in early 2020. The increasing cost of freight and associated supply chain issues have increased costs, inflationary pressures continue, while minimum wage increases continue to add pressure to very small margins. This has created complex challenges at the bottom line for almost all small and medium businesses.
4. Retail NZ does not support the proposed New Zealand Income Insurance Scheme (NZIIS). We outline our feedback below and would welcome ongoing engagement on this scheme.

**General comments**

5. Retail NZ:
  - does not support imposing another cost on businesses and their employees without a corresponding offset in tax;
  - has conducted research that suggests the absence of a large-scale redundancy problem in the sector;
  - holds the view that there is already a strong private income insurance market in Aotearoa, where premiums are tax deductible;
  - recommends closer consideration of the Fair Pay Agreements Bill, and its scope to address redundancy;
  - believes the NZIIS creates the wrong incentive and risks promoting a 'jump-ship' effect in our sector;
  - submits that, if the scheme is to proceed, a more generous timeline for implementation is required.

**The current environment**

6. There is immense pressure on the retail sector to stay resilient through the current economic environment. The introduction of what is effectively a new tax that provides no cushion for business owners will garner little support.
7. The recent Westpac McDermott Miller Consumer Confidence Index reported a 13-year low. This result indicates that more consumers in Aotearoa are pessimistic about the current economic environment than they are optimistic. The rapid increase in prices of

household goods is outpacing wages at an unprecedented rate. Pessimistic consumers are far less likely to create demand.

8. Global and domestic supply chain issues linked to COVID-19 continue to linger and impact prices. Figures from our recent quarterly report state that in Q1 2022 59 per cent of retailers increased their prices. On average, retailers expect prices to increase by more than 7 per cent in the second quarter of 2022.
9. Understanding of the current sentiment and economic environment needs to be a paramount consideration for the future of the NZIIS.

## Retail sector response

16. There is no significant issue due to redundancies or medical redundancies in the sector. 87 per cent of respondents to a recent survey had not made even a single staff member redundant within the last few months, notwithstanding the impacts of COVID-19. An even higher 90 per cent had not lost a staff member on medical/disability grounds over the last 12 months.
17. When asked whether they could currently afford paying the new levy, 71 per cent of retailers could not. 70 per cent of retailers that took the survey have between 1-10 employees, and it's no coincidence these numbers are almost identical. This relationship highlights the disproportionate impact the scheme would have on small to medium businesses, who often have tighter margins and lower cash reserves.
18. Many retailers won't be able to absorb the new cost. 58 per cent said it was likely this would be passed on to the consumer, and 61 per cent of retailers indicated it would delay any pending wage increases. These are just two of the obvious pressure points for retailers, giving insight into the domino effect introducing the levy will have on financial forecasting.

## Cost implications - Employees & Employers

19. Retail NZ does not support imposing a new cost on businesses, or their employees, without a corresponding offset in tax or some other form of government intervention.
20. The proposed NZIIS sets an initial levy of 2.77 per cent, to be shared equally between firms and workers - paying 1.39 per cent respectively. MBIE has defined this as a 'prudential estimation', although it remains vulnerable to increasing.
21. Despite the initial capital provided by the government, its contribution will not be on-going, meaning that the costs on employers and employees may grow.

## Employees

22. The proposed levy would take \$770 out of the median Kiwi pocket annually, reducing spend, dampening demand for business, and diminishing the potential for pay rises by the same amount. This comes at a time where the government needs to be focusing on creating the opposite effect.

23. The proposed levy would deepen record levels of consumer pessimism currently observed in Aotearoa.

### Employers

24. Implementing the NZIIS would have a similarly adverse impact on employers.
25. The introduction of a new cost can often lead to the financial restructuring of a business to ensure survivability. Laying off staff or a relative increase in prices are common symptoms that a business doesn't have the capacity to absorb cost shocks. As aforementioned, Retailers have indicated that they will increase prices by an average of more than 7 per cent during Q1 2022. As the cost of running a business increases exponentially, owners have no choice but to compensate with corresponding increases in price.
26. On top of the levy, employers are expected to pay a one month bridging payment to the redundant employee. The inclusion of this provision further strengthens the argument for a tax offset - as these bridging payments will be a damning factor in many businesses' survivability.
27. Retail NZ supports the view of Business NZ that the associated cost of implementing an Income Insurance scheme will need to be offset by some form of tax relief or alternative government intervention.

### Private income insurance & employee redundancy packages

28. There are already several providers of private income insurance in Aotearoa.
29. Most income protection policies will cover you in times of injury, illness, or redundancy. They are designed to out-last standard sick leave entitlements and enable you to meet your living expenses - allowing you to focus on re-entering the workforce.
30. Premiums on income insurance are often tax deductible, considerably reducing the net cost of taking one out.
31. Additionally, consideration must be given to those employees with access to redundancy packages via their current working arrangements, and how the NZIIS would interact with both this and private income insurance.
32. Retail NZ would like more clarity on the relationship between these measures, whether employees would be able to 'double-dip', or otherwise consider opting out of the NZIIS.

### Fair-pay negotiations

33. There is overlap between the NZIIS and proposed Fair Pay Agreements Bill. While Retail NZ supports neither, the Fair Pay Agreements Bill has entered the Select Committee process and carries scope to address redundancy and medical retirement.
34. This means that a mandatory, economy-wide approach may not be necessary.

## Creating the wrong incentive

35. Retail NZ considers the proposed replacement rate and entitlement period, inclusive of the bridging payment, create the wrong incentive and are likely to promote the 'moral hazard' effect.
36. The 'moral hazard' effect refers to claimants who become content with relying on their insurance payments, showing a lack of motivation to re-enter the workforce. This behaviour risks increasing the cost of the NZIIS while subtracting from social or economic benefit - essentially, employees '*gaming the system*'.
37. The skill deficit and labour shortage in the retail sector has already been amplified by tougher border restrictions as part of the governments COVID-19 response. Creating an incentive for a 'jump ship' culture would further compromise the reality of a long-term, valuable career path in retail.
38. The proposed replacement rate of 80 per cent is generous, and this view is consistent with commentary from the consultation document.
39. The retail labour market is dynamic. If the NZIIS goes ahead without necessary safeguards to the 'moral hazard' effect, it will likely outweigh any benefits to productivity or upskilling the NZIIS intends to achieve.
40. Without a formalised set of retail pathways for skills for the retail sector this 'moral hazard' effect will be amplified.

## Timeframe

41. Retail NZ is concerned the timeline for delivering the scheme is too tight.
42. The proposed scheme is massive in scale - expected to rival ACC in size. If the current plan were to go ahead, necessary legislation would be introduced in 2022, with the scheme then applied in 2023.
43. As previously mentioned, businesses require certainty for upcoming costs and ample time to plan around them. This is especially important for small to medium retailers with tight margins, the most vulnerable to fluctuations in the cost of doing business. In Retail NZ's view, the proposed timeline will not be generous enough to promote this.
44. Retail NZ recommends the timeline for implementation is extended by 12 months.
45. A revised timeline would benefit the policy making process, giving necessary time for legislation to be scrutinised via the parliamentary process, while equally ensuring employers and employees can make necessary adjustments.

## Final comments

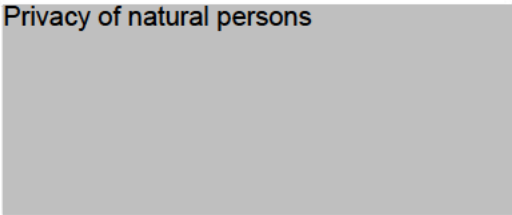
46. While Retail NZ understands the NZIIS intends to address long term displacement in the labour market, we do not support it in its proposed form.
47. Currently, there is a lack of evidence to suggest that the cost associated with the NZIIS would be solving a serious redundancy problem in the sector. Furthermore, without

indication of a corresponding tax offset - it is simply not palatable for businesses in the current environment.

48. An accessible income insurance market already exists in New Zealand, and many employees have existing redundancy arrangements written into contract. There is a lack of need for a compulsory income insurance scheme in Aotearoa.
49. Retail NZ thanks MBIE for the opportunity to submit on the consultation and welcomes ongoing debate on the future of the NZIIS.

Greg Harford

Privacy of natural persons



Chief Executive

Retail NZ