

Submission to the New Zealand Income Insurance Scheme Submissions close 26th April 2022

Introduction

The South Canterbury Chamber of Commerce is the voice of South Canterbury business, serving the community since 1905. With 510 member businesses and with a strong national and international Chamber family, we work together to build better business outcomes. We recognise that healthy business cultures lead to the improved wellbeing of all South Cantabrian's.

The proposed income insurance scheme is at discussion stage and has been broadly supported by the NZ Council of Trade Unions and Business NZ. It is being created to protect and support people who are made redundant, laid off or have to stop working because of a health condition or disability. It is proposed that this will create a new and better way of protecting workers and the economy. In summary we are advised that it provides:

- Broad coverage for different working arrangements
- Coverage for job losses due to redundancy, layoffs and health conditions and disabilities
- A four-week notice period and four-week payment, at 80% of salary, from employers
- A further six months of financial support from the scheme, at 80% of wages or a salary
- Option to extend support for up to 12 months for training and rehabilitation
- A case management service to support people's return to work
- It will be administered by ACC
- Funded by levies on wages and salaries, with both workers and employers paying an estimated 1.39% each
- Workers eligible after six months of levy contributions in the previous 18 months

Key Areas of Feedback:

In summary:

No, the South Canterbury Chamber of Commerce does not support the implementation of the New Zealand Income Insurance Scheme. In our view the scheme although philosophically well intentioned would actually create a number of unintended consequences that include far higher costs to businesses leading to potentially higher unemployment and a range of negative incentives. This submission is a reflection of feedback from our member businesses.

The scheme also comes at a time when businesses can least afford additional costs following Covid stricken trading periods, higher inflation and a likely serious recession.

Employers also have the extra costs of an increase in the minimum wage, an extra days holiday plus extra sick days. Workers need to keep all their earnings in their own pockets for the rising costs of living and should be able to choose if they wish to self-insure. Schemes

like this have operated in European welfare style programmes and are fraught with challenges.

In essence this scheme becomes yet another tax for businesses and individuals.

We believe there is no pressing need for this scheme, we have very low unemployment and long-term unemployment is also low and well below the OECD long term unemployment figures – demonstrating that there is not an issue to address. New Zealand also has in place an effective and targeted welfare system. The introduction of this scheme is equivalent to a 3% tax on labour and has been estimated at a cost of \$3.56 billion to our economy each year (source the New Zealand Initiative).

Although starting at 3% there is also every risk that these costs/percentages could escalate as the government may wish to extend the provision to for example cover longer term maternity leave.

There is concern that the more you pay for something typically the more you get. If people know they will receive funding, there is less incentive to return to work. A scheme like this is also likely to disadvantage those that take up the scheme as there will be a gap or gaps in individuals CV's – again a disadvantage in the selection process for jobs.

Other comments as per the submission document follow:

1. *Do you agree New Zealand should introduce an income insurance scheme for displacement and loss of work due to health conditions or disabilities?*
No – definitely not a compulsory scheme.
2. *Do you agree with defining displacement as the involuntary loss of work due to the disestablishment of a job?*
Frequently not as clear cut as this.
3. *Do you agree that income insurance should cover only the complete loss of a job, and cover situations where a person loses only one of several jobs that they hold?*
This would need to be the primary job that was lost.
4. *Do you agree that income insurance should cover fixed-term and seasonal employees if they are displaced before the end of an employment agreement, with the duration of the payment running to the scheduled end of the employment agreement, or the maximum insurance entitlement duration, whichever is shorter?*
If there is a scheme yes it needs to cover these situations.
The SCCC does not support the introduction of such a scheme.
5. *What risks do you see with covering, or not covering, people in self-employment?*
If they pay into the scheme then they should be covered.
6. *Do you agree limits should be placed on the number claims people can make?*
Yes, there should be limits and tight oversight to avoid rorts.
7. *Do you agree with a replacement rate set at 80 percent?*
No this should be on a reducing level to encourage people to return to work.
8. *Do you agree with a cap on insurable (and leviable) income set at the same rate as the accident compensation scheme (currently \$130,911)?*
Yes – anything above this should be self-insured.
9. *Do you agree that income insurance claimants could also receive New Zealand Superannuation or the Veteran's Pension?*
If you are paying a levy you should be covered by the scheme.
10. *Do you agree that income insurance and Paid Parental Leave could be accessed sequentially but not at the same time?*
If you are paying a levy you should be covered by the scheme.

11. Do you agree that employers should give at least four weeks' notice to employees, and the insurer, before redundancy takes effect?

No. In situations like COVID (which this is a response to) four weeks is not practical. Four weeks' notice plus first four weeks payment is 15% of an annual salary – a large amount if you are struggling as a business. Most businesses only make people redundant when they are in serious trouble. Most people see redundancy as the last option and a scheme like this could make them react more quickly to minimise costs.

12. Should the scheme cover partial loss of earnings due to a health condition or disability reducing work capacity?

No.

13. Do you agree that the income insurance scheme should be funded from compulsory levies on the income that is insured rather than from general taxation?

No as the scheme is not supported.

Conclusion:

To conclude the South Canterbury Chamber of Commerce does not support this scheme. We would argue that a scheme like this is clearly not needed when unemployment data is reviewed. The scheme is not good for people as it has the potential to entrench and reward the wrong behaviour and it is totally the wrong time to introduce such a scheme with turbulent trading environments, inflationary pressures and a higher cost of living.

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