

**Submission**

**by**

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**On the paper titled**

**“New Zealand Productivity Commission (2019). Employment, labour markets and income. Technological change and the future of work, Draft report 2.”**

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## Introduction

Thank you for the opportunity provided to complete submission.

No part of this submission is required to remain confidential.

I refer to the Productivity Commission's three options for improving income security in New Zealand being:

- Introducing portable individual redundancy accounts
- Mandating unemployment insurance
- Making changes to benefits and tax credits

In summary, my support or opposition to each of these can be noted as follows:

- Introducing portable individual redundancy accounts – Opposed, unless amended to simply permit a partial or total withdrawal of a KiwiSaver account balance when required to smooth income.
- Mandating unemployment insurance - Opposed
- Making changes to benefits and tax credits – Supported, refer to the details below.

## Detailed Submission

First, consider the suggested option of portable individual redundancy accounts.

Employees fall into one of three categories:

- Those who are able to make their own savings for redundancy and they do so
- Those well able to make such savings, and they choose not to or fail to do so
- Those who, quite simply, can't afford to make such savings.

I show below an extract from my submission completed to the Tax Working Group in relation to KiwiSaver. To assist in understanding its relevance to the suggested portable individual redundancy account option, along with a few other minor tweaks in non-italicised text, I have replaced "KiwiSaver", "retirement savings" and "universal NZ Superannuation" in that submission extract with the words "portable individual redundancy account", "redundancy account savings" and "Jobseeker support".

It is interesting that the message that this delivers on both KiwiSaver and the suggested portable individual redundancy account is very clear, namely that the option proposed is analogous to the issues already identified as applicable to KiwiSaver and potentially a complete waste of time and energy, and certainly unproven in enhancing productivity.

The doctored submission extract follows:

*To the extent that "the portable individual redundancy account", results in the final two groups undertaking "redundancy" savings that would otherwise not occur (i.e. those who can afford to save but don't or those who can't afford to save), there may be some small incremental increase in "redundancy" savings. I understand that research suggests that this is the outcome being achieved by KiwiSaver but with much of KiwiSaver monies otherwise being savings diverted from alternative savings. (I expect the same to apply to the suggested portable individual redundancy account) .....*

*The “Productivity Commission” has also been publicly reported as suggesting compulsory membership of “a portable individual redundancy account” be considered ..... Noting that compulsion is pointless for the first group, one can conclude that compulsion might only ever assist people in the last two categories to achieve “redundancy” savings that otherwise would not occur. However, for the last group, it is at the expense of their ability to meet their basic living requirements. Hence, if compulsion is introduced, to ensure that the living standards of this final group are not adversely impacted, government has no choice but to either enhance the income of this latter group to cover the contributions required to be made to “the portable individual redundancy account”, or alternatively for the government to make some or all of the payments direct to “the portable individual redundancy account” that such individuals would otherwise be required to make,.*

*It is at this point that one can ask, in the face of a “Jobseeker support” payment ....., what is the point of “a portable individual redundancy account”?*

*Acknowledging that “a portable individual redundancy account” would have some benefit towards enhancing financial capability in the form of financial literacy, outside of this benefit, it only has a point if it is believed that “Jobseeker support” is insufficient in itself to provide an adequate “redundancy” income, or if there is an as yet unstated intent to replace “Jobseeker support” with “the portable individual redundancy account” .....*

*Unless the financial literacy benefit achieved via “a portable individual redundancy account” is sufficient unto itself, I suggest that the inequity that the Chair of the tax working group (and the Productivity Commission, I suspect) is concerned about might best be addressed by abolishing “the option of the portable individual redundancy account” and reverting to the pure voluntary savings structure that previously existed, supported by an ongoing “Jobseeker support payment” at a level that obviates poverty .....*

*“Redundancy saving” is simply about having enough money when one “is made redundant” to enjoy the lifestyle that one aspires to at that time. It does not need to be in a specialised “portable individual redundancy account”. Providing incentives, introducing compulsion and locking money away until a specified “event such as redundancy” simply introduces unnecessary distortion, increases inequity, and reduces personal financial flexibility. ....“A portable individual redundancy account” fails to recognise the other costs that the lack of flexibility within the scheme imposes.*

I trust that my point is now clear and understood. Both KiwiSaver and the proposed option of portable individual redundancy accounts are pretty much a waste of money, time and effort, and I believe thereby working directly against the objective of the Commission to enhance productivity. This is even before considering how the redundancy account should be managed and invested, a matter on which I think the report is largely silent, except for the suggestion that it might be managed alongside that individual’s KiwiSaver account, if the individual has one.

That just raises a much larger question. With KiwiSaver already in place, why can’t redundancy simply be yet another permitted reason for an individual to access part or all of the KiwiSaver balance? Job done, as long as KiwiSaver continues to exist, without the need for a separate complex income support structure focused solely on redundancy.

I also note that the paper contains little information on the impact on productivity of compulsorily directing monies into some form of managed fund, rather than letting the individual continue to make his or her own decision as to how to spend or invest monies.

This is an issue that is also relevant to KiwiSaver, now involving some \$60 billion directed to a select group of fund managers. Is that adding to or subtracting from productivity? It would be useful to know.

Forcing reallocation of personal resources into specialised accounts or insurance, while at the same time allocating other resources to a fundamental review of benefits and taxation because of those proposed options doesn't seem to align with what I understand the Commission objectives to be.

Turning then to the second option of mandating unemployment insurance, we already have this, hence I oppose a separate insurance fund. The existing insurance plan is generally called the unemployment benefit (or Jobseeker Support, in modern parlance), and is paid from general taxation revenue.

If, as suggested in the report, there is some flaw envisaged with the level of this Jobseeker support payment, then change the access to and the level of the Jobseeker support payment to address the flaw, even if it means different individuals get significantly different benefit amounts. Any such different Jobseeker support payment amounts will, in most cases, likely reflect the significantly different amounts of tax already paid by individuals on different income levels, but suddenly facing redundancy.

Then, in this age of big data, it should even be possible to calculate all of the tax that an individual has paid to date and use this as a proxy to calculate a fictional "portable individual redundancy account" amount to establish the level of Jobseeker support applicable to the individual to smooth income.

Please don't go down the track adopted by other governments of introducing complexity into taxation structures with all sorts of separate and targeted taxes. Please keep following the KISS principle in relation to tax design.

If the Commission accepts the general tenet of this submission, then a result will be that the proposed review and likely upheaval of both taxation and benefit structures will be avoided, thereby enabling all of the resource that would otherwise be redirected to that activity to remain committed to other productive activity.

Having spent my time on this submission, I similarly now intend to revert to other productive activity, albeit I will regard my time on this submission as being highly productive if the first of the two proposed options, a portable individual redundancy account or mandated unemployment insurance, never proceed further.