

Meat Industry Association of New Zealand (Inc)

Submission to the Finance and Expenditure
Select Committee on

The Kiwisaver Bill

April 2006

Meat Industry Association Submission on the Kiwisaver Bill

Contents

I: About the Meat Industry Association	3
II: Employees in the Meat Processing Industry	3
III: Summary of MIA Position	4
IV: Robust Assessment of Merits of Kiwisaver	4
V: Exemptions for Existing Superannuation Schemes	6
VI: The Role of Employers	7
VII: The Prospect of Compulsory Employer Contributions	7
VIII: Changing Contribution Rates	7
IX: Recommendation.....	8
X: Appearance before the Select Committee	8
XI: Contact Details	8
XII: Appendix 1 - MIA Members as at 1 July 2005	9
XIII: Appendix 2 – MIA 2005 Holidays Act Survey – Key Points	11

I: About the Meat Industry Association

1. The Meat Industry Association of New Zealand (MIA) is a voluntary trade association representing New Zealand meat processors, marketers and exporters. It is an Incorporated Society (owned by members) that represents companies supplying 99% of all New Zealand sheepmeat exports and 100% of beef exports. Its member companies are responsible for approximately 21% of New Zealand's total exports by value, equating to approximately \$NZD 5 billion annually. Additionally, our members produce in excess of \$1billion of domestically-consumed meat products.
2. MIA member companies operate approximately 80 processing plants dispersed throughout the country. The plants slaughter and process approximately 25 million lambs, 3.8 million sheep and 2 million cattle per annum. Ninety percent of this production is processed into value-added products. Approximately 750,000 tonnes or 85% of the production is exported to overseas destinations. Its 19 affiliate companies add to the depth of expertise available from the membership, with representation throughout the meat supply chain, including road and rail transport, shipping lines, ports, packaging firms, specialist product exporters, research and technology.
3. The MIA advocates on behalf of its members and provides advice on economic, trade policy, market access, employment relations, business compliance costs and technical and regulatory issues facing the industry, with a particular focus on:
 - Food safety trends and developments in importing countries
 - Economic and trade aspects of market access to key overseas markets
 - Major public policy proposals that could impact on industry operations
4. The MIA is also the interface between the meat industry and government (i.e., it is the consultative body referred to in various New Zealand statutes, such as the Meat Board Act 2004, Meat Act 1981, Animal Products Act 1999).
5. The Association's mission is to:
 - Provide a forum for consideration of industry-wide commercial, human resource, marketing, and sanitary and zoosanitary issues; and
 - Provide the means of formulating a collective view on issues of industry wide interest, and of conveying that position to government, departments of state, trade bodies, and other appropriate external agencies and organisations.
6. The Association's goal is to improve profitability in the industry by helping its members achieve marketing and operational excellence.

II: Employees in the Meat Processing Industry

7. Meat processing is a seasonal industry. At the height of the season (roughly November to May - although the length of the season varies significantly in different parts of the country), our members employ in excess of 22,000 workers. This represents around 1% of New Zealand's total labour force.
8. As a consequence of seasonality, the industry's workforce operates in a cycle. Large-scale recruitment of workers at the start of the season is followed by large-scale seasonal redundancies

at its conclusion. Operating in such a cycle makes the industry quite exposed to regulatory and other costs associated with employing new staff.

9. Increasingly, the seasonal nature of the industry is proving to be a significant challenge in terms of recruiting sufficient workers to meet the industry's needs as workers seek the stability of year-round employment. A decline in working-age population in the rural regions in which the industry primarily operates compounds the situation. As a result employers in the industry are forced to continually work hard to attract and retain workers.

III: Summary of MIA Position

10. The MIA has had the opportunity to view the submission of Business New Zealand on the Bill, and we agree with a number of the issues it raises – albeit often for slightly different reasons.
11. Particular aspects of Business New Zealand's submission that have struck a chord with the MIA include:
 - Ensuring a robust and balanced assessment of the merits of the Kiwisaver proposal as a means to increasing the wealth of New Zealand is undertaken;
 - The potential for Kiwisaver to impact negatively on existing superannuation schemes and on the reasons many employers choose to support those schemes;
 - The need for clarity around the role of employers in providing information regarding the Kiwisaver system; and
 - The potential for Kiwisaver to transform into a scheme demanding compulsory employer contributions.
12. The MIA's view is that the Bill should be deferred pending further analysis of the issues of saving in New Zealand. However, in the event the Bill does proceed, the MIA recommends refining aspects of the Bill as discussed below.

IV: Robust Assessment of Merits of Kiwisaver

13. The MIA submits that the importance of ensuring there has been genuine, robust and balanced analysis into the need for a general work-based saving scheme as set out in the Bill cannot be overstated. The proposal is extremely broad-ranging and has implications for hundreds of thousands of New Zealand employees and employers. The sheer breadth of the proposal alone means that it is imperative that it is carefully crafted to meet a well-understood need.
14. The MIA accepts that the Kiwisaver proposal would assist some people to save. In particular, making direct deductions from a person's wages or salary can help less financially-disciplined individuals to put some money aside, and in this respect Kiwisaver would be useful to those individuals. However, the extent to which such people represent 'New Zealand society' needs to be understood before committing to a \$700million programme to assist them to save.

15. If New Zealand is serious about improving per worker productivity, any initiative that will add to the cost and complexity of employing people (however small the increased cost may appear) needs to be robustly assessed to ensure increasing the administrative burden on employers is counterbalanced by a well-understood net gain.
16. To illustrate the significance this principle, the Holidays Act 2003 introduced the concept of 'relevant daily pay' – which has meant that workers taking sick leave were no longer paid an agreed rate, but were entitled to receive the productivity bonuses etc. that they would have received had they worked that day.
17. For a large proportion of New Zealanders (e.g., salaried and/or '9-to-5, Monday to Friday' workers), the introduction of 'relevant daily pay' made little change in terms of the burden on employers. However, the quantifiable direct cost of this one legislative change to the meat industry was \$17million¹ in the first year under the new Holidays Act – and this excludes the unquantifiable cost in terms of productivity etc. arising due to dramatic increases in absenteeism.
18. To put this cost into context, the entire profit for the industry trends at between 1% and 3% or turnover (or between \$50million and \$150million). \$17 million is a huge share of this profit when one considers that it was lost as the result of a single policy decision that, to many people, may have seemed relatively innocuous.
19. New Zealand simply cannot afford to continue making such decisions without taking the time to fully appreciate both the cost implications of action and, perhaps more importantly, the extent to which that action will realistically contribute to a desirable policy gain.
20. As a final note in this point, ensuring proposals to encourage savings are effectively targeted reduces the likelihood that they will need to be refined in future. Given that the Bill proposes a payroll-based deduction system, future refinement would likely come at a further compliance cost to employers. Stability of the deduction system is key to minimising the cumulative effect of compliance costs associated with a payroll-based deduction scheme, which is a further reason for ensuring the range of needs associated with the Kiwisaver proposal, and the likely effectiveness of the proposal in addressing them, are well understood.
21. For the reasons given above, the MIA shares the concerns of Business New Zealand regarding the haste with which the Bill is being progressed and the apparent lack of balanced research into the merits of the proposal. We concur with Business New Zealand's call for the Bill to be deferred pending further and wider research on savings practices in New Zealand and an assessment of the broader range of mechanisms and initiatives through which the financial wealth of all New Zealanders can be lifted.
22. In the event that this call is unheeded, however, the remainder of our submission will focus on our concerns over specific aspects of the Bill in its present form.

¹ Meat Industry Association Holidays Act Survey, May 2005. A copy of the key findings of this survey is attached as Appendix 2.

V: Exemptions for Existing Superannuation Schemes

23. Through the MIA, our members have developed an industry-wide superannuation scheme, the Meat Industry Superannuation Scheme ('the MISS'). A key reason for establishment of the MISS was to provide a scheme tailored to the seasonal nature of the industry with its inherent cycle of seasonal redundancy and re-employment. To address this cycle, the MISS recognises continuity of service as being an employee returning season-after-season rather than expecting long periods of unbroken employment.
24. This has advantages for both parties. The loyalty of employees to the industry is rewarded through the vesting of employer contributions in the employee over consecutive seasons. The employer, in turn, is able to provide employees with an incentive to return for subsequent seasons – which is increasingly important given the labour challenges faced by the industry (refer paragraphs 8 and 9 above).
25. We note that clauses 19 and 20 of the Bill would provide an exemption regime so that employers with existing superannuation schemes would be excused from the general requirement for all new employees to be automatically enrolled in a Kiwisaver scheme. To secure an exemption, employers must be able to show they have an existing registered superannuation scheme that:
 - is open to all employees over 18, and into which the employees can transfer existing interests in other schemes (clause 20(a));
 - allows employees to transfer their interest in the employer's superannuation scheme to another scheme; (clause 20(b));
 - requires employees to contribute at least 4% of their gross wages or salary; (clause 20(c)); and
 - vests all employer contributions (if any) in the employee within five years of the employee joining the scheme (clause 20(d)).
26. We understand the rationale behind the criteria in clauses 20(a)-(c), as they ensure that employer schemes are broadly comparable to Kiwisaver schemes. We have two concerns over the criteria listed in clause 20(d), however.
27. The first is that, given that Kiwisaver does not require any employer contributions, we find it difficult to understand why the period over which employer contributions vest in employees has any bearing over the compatibility of existing employer superannuation schemes and Kiwisaver schemes. Even a partial vesting of employer contributions would put an employee participating in an existing employer superannuation scheme at a financial advantage over an employee participating in a Kiwisaver scheme.
28. Our second concern is that employers whose schemes do not currently comply with clause 20(d) would ultimately have two options if they wish to continue with their scheme and secure an exemption from automatic Kiwisaver enrolment. On the one hand, they could amend their superannuation schemes to accelerate the vesting of employer contributions. Alternatively, however, they could comply with clause 20(d) by amending their scheme to remove the obligation to make employer contributions altogether.

29. Viewed from this perspective, clause 20(d) not only fails to recognise that any employer contribution provides a benefit to an employee, but also provides a perverse incentive not to make employer contributions at all. The MIA strongly contends that this goes completely against the grain of the underlying purpose of the Bill (i.e., improving the wealth of New Zealand employees).
30. We therefore submit that clause 20(d) of the Bill should be removed in its entirety.

VI: The Role of Employers

31. We consider Business New Zealand's suggestion regarding the provision of information to employees on the role and obligations of employers is helpful. It is not uncommon in the meat processing industry for several hundred employees to be taken on by a company in a single intake. It should not be incumbent on employers to incur costs in promoting central government activities to large numbers of people. To manage the expectations of employees, information provided to them must clearly set out the limited role of employers and direct employees to the Inland Revenue Department for any queries.

VII: The Prospect of Compulsory Employer Contributions

32. The MIA fully endorses the observations made by Business New Zealand regarding the potential for future amendments to Kiwisaver legislation to require employers to make contributions to employees' Kiwisaver accounts and the cost to New Zealand associated with such a move.
33. However, putting aside the issue of 'national cost' we also consider requiring contributions from all employers would erode one important way in which employers may seek to differentiate themselves from their competitors in a tight labour market. Currently, making a contribution towards an employee's superannuation fund is one way in which an employer can demonstrate the value in which it holds staff and hopefully retain good employees as a result. This clearly becomes difficult when contributions are mandatory.
34. It might be argued that in the face of compulsory contributions some employers might increase their level of contribution to maintain their point of difference with regard to competing employers. However, as 'baseline' minimum employment entitlements rise, financial pressures impact on the extent to which employers can continue to provide entitlements over and above those 'baselines' as a sign of appreciation of their employees.
35. Ultimately, employers wishing to reward workers as a means to developing a positive workplace culture (which the Department of Labour has identified as one of seven key drivers in improving workplace productivity) would find it increasingly difficult to do so.

VIII: Changing Contribution Rates

36. Clause 55 of the Bill would allow an employee to alter deduction rates between 4% and 8%. A number of our members have raised a concern about the fact that there are no restrictions around the right to alter deduction rates.

37. At certain times in the processing season, many meat processing workers will have access to a significant amount of overtime. As a consequence, the level of income workers receive can vary quite an amount between pay periods. In some cases, this may cause employees to decide to contribute more to their Kiwisaver accounts in the pay periods in which they have worked a significant amount of overtime and scale back their contribution rate during more 'normal' pay periods.
38. The desire to save extra earnings is undeniably positive. However, while in a small enterprise employees frequently changing their contribution rates for different pay periods may be mainly of minor nuisance value, within large enterprises there is potential for a reasonable amount of time to become taken up with processing changes.
39. We would not wish to discourage employees from putting extra money aside during periods in which they are earning more, but we recommend placing some limits on an employee's ability to change contribution level. Our suggestion is that limiting the number of changes to contribution rates an employee could make to four in any year would strike a reasonable balance between allowing employees to save more without unduly increasing the administrative burden on employers.

IX: Recommendation

40. The MIA recommends that the Bill does not proceed, for the reasons given in paragraphs 13 to 21 above.
41. In the event that the Bill does proceed, however, we recommend that:
 - Clause 20(d) of the Bill should be removed in its entirety;
 - The information pack proposed to be supplied to employees clearly explains the limited role of employers;
 - The Committee firmly rejects any call for the Bill to require compulsory employer contributions to employee's Kiwisaver accounts; and
 - Reasonable limitations are placed around the frequency with which employees can vary their level of contributions.

X: Appearance before the Select Committee

42. The MIA does not wish to be heard before the Select Committee to present this submission.

XI: Contact Details

43. For any queries relating to this submission, please contact Dave Harrison on 04 495 8371 or email dave.harrison@mia.co.nz, Meat Industry Association of New Zealand (Inc)

XII: Appendix 1 - MIA Members as at 1 July 2005

List of MIA Members and Affiliate Members (year commencing 1 July 2005)

Members
Advance Marketing Ltd
AFFCO New Zealand Ltd
Alliance Group Ltd
ANZCO Foods Ltd
ANZCO Green Island Ltd (ANZCO group)
ANZPAC Foods Ltd
Auckland Meat Processors Ltd
Ballande New Zealand Ltd
Bernard Matthews New Zealand Ltd
Blue Sky Meats (NZ) Ltd
<i>Brookland (NZ) Ltd (in receivership)</i>
Canterbury Meat Packers Ltd (ANZCO group)
Columbia Exports Ltd
Crown Marketing Ltd (ANZCO group)
Crusader Meats New Zealand Ltd
Dairy Meats NZ Ltd (AFFCO group)
Davmet New Zealand Ltd
Fern Ridge Ltd
Frasertown Meat Company Ltd
Garra International Ltd
Glovers Foods Ltd
Greenlea Premier Meats Ltd
Harrier Exports Ltd
Horizon Meats New Zealand Ltd (wholly owned subsidiary of Blue Sky Meats (NZ) Ltd)
Lamb Packers Feilding Ltd (wholly owned subsidiary of Bernard Matthews NZ Ltd)
Land Meat (NZ) Ltd (AFFCO group)
Lanexco Ltd
Lowe Corporation Ltd
Mathias International (Mathias Meats NZ Ltd)
Pilot (NZ) Ltd
Primary Producers Co-operative Society Ltd (PPCS)
Progressive Gisborne Ltd (wholly owned subsidiary of Bernard Matthews NZ Ltd)
Progressive Meats Ltd
Rakaia River Meats Ltd
Riverlands Ltd (ANZCO group)
South Pacific Meats Ltd
Tara Exports Ltd
Taylor Preston Ltd
Te Kuiti Meat Processors Ltd
Towers Thompson (New Zealand) Ltd
Universal Beef Packers Ltd (UBP)
Wallace Corporation Ltd

Affiliate Members
AgResearch-MIRINZ Centre
Aon New Zealand Limited
Australia-New Zealand Direct Line (ANZDL)/Contship Containerlines (Divisions of CP Ships UK Ltd)
Carter Holt Harvey, Packaging
CentrePort Wellington
Energy for Industry (ex Meridian Solutions)
Hamburg-Sud New Zealand Ltd
Hapag Lloyd (New Zealand) Ltd
Maersk New Zealand Ltd
New Zealand Natural Casing Association Inc
Oceanic Navigation Ltd
Port of Napier
Port Otago Ltd
Port Taranaki Ltd (previously Westgate Transport Ltd)
ProAnd Ltd (Meatek Ltd)
Rissington Breedline Ltd
Thompson Clarke Shipping Pty Ltd (ANZ Marketing Representative for the Port of Los Angeles)
Vero Marine Insurance

XIII: Appendix 2 – MIA 2005 Holidays Act Survey – Key Points

LEVEL OF RESPONSE

Responses were received from all Association processor members with the exception of one independent processor. Collectively, the level of response represents virtually all of the meat production attributable to MIA members.

ADJUSTMENT OF DATA

To assist in making the data for the years ending March 2005 and 2004 more comparable, the raw data is adjusted to suppose that employee numbers in the baseline year ending March 2004 year (21,738 staff) are maintained over the entire period surveyed.

Other factors may also impact on the direct comparability of the two sets of data. For example, the total cost of payroll will be affected by wage increases and increased production (as the 'piece rate' payments would increase). No adjustments to data have been made to try to account for such factors.

SUMMARY OF RESULTS

The table below shows the increases in the cost of public holiday pay, sick leave and bereavement leave. All data in the table has been adjusted to reflect a workforce of 21,738 employees.

	2003/04	<i>2004/05 Estimates</i>	2004/05	Increase
	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Public Holidays	17.9	33.1	28.1	10.2
Sick Leave	5.4	15.3	11.7	6.3
Bereavement Leave	0.38	0.93	1.04	0.66
Total	23.68	49.33	40.84	17.16

The (employee number-adjusted) increase of \$17.16 million for the year ending March 2005 represents a 2.65% increase on total payroll for the year ending March 2004.

The (employee number-adjusted) contingent liability arising due to accrued sick leave has risen by around 71% to \$28 million. This is just under 4% of the adjusted total payroll for the year ending March 2005.

TOTAL INCREASE IN PAYROLL

Raw Data

Total cost of respondent's payroll for the year ending March 2005 was roughly \$732 million.

This is up \$84 million, around 13%, on the total payroll for the year ending March 2004 (\$648 million).

Adjusted Data

When this data is adjusted to assume identical employee numbers as those in the 2004 year, the total cost of payroll becomes \$708 million – an increase of \$60.7 million or 9.4%.

INCREASED COST OF EMPLOYEE ENTITLEMENTS UNDER HOLIDAYS ACT

The extent to which this 9.4% increase in payroll can be attributed solely to the impacts of the Holidays Act 2003 is considered below.

Public Holidays

Raw Data

The cost of paying employees for public holidays (whether worked or not) increased 62% in the year ending March 2005, from \$17.9 million in 2004 to \$29 million in 2005.

Note that this increase comes despite the fact that Anzac Day fell on a Sunday in the 2005 year, thus effectively reducing the number of public holidays from 11 to 10, and despite the fact that many plants chose not to operate on public holidays to avoid incurring additional labour costs.

Adjusted Data

When the total cost of public holidays for the year ending March 2005 is adjusted for employee numbers, it becomes \$28.1 million – up over \$10.8 million (or 63%).

Sick Leave

Raw Data

In the year ending March 2004, the total cost of sick pay to respondents was \$5.4 million. In the year ending March 2005 this jumps to \$12 million – an increase of 122%.

Over this period there was also a 39% increase in the number of sick days taken from 58,600 in 2004 to 81,400 in 2005. This is itself largely a result of the Holidays Act due to the 'relevant daily pay' concept meaning that workers are financially no worse off for taking sick leave. In part the increased incidence of sick leave will be due to genuinely ill workers taking leave when they may not have previously. Equally, however, the 'relevant daily pay' concept has removed a key disincentive to abusing sick leave entitlements.

If one were to exclude the effects of the increased incidence of sick leave by comparing the average 'per sick day' cost of sick leave in 2004 and 2005, there is a significant cost impact as a result of the 'relevant daily pay' concept. In 2004, the average cost of paying out a sick day was \$92.50. In 2005, this had risen to \$148 – up 60%.

Adjusted Data

When the total cost of sick leave for the year ending March 2005 is adjusted for employee numbers, it becomes \$11.7 million – up over \$6.2 million (or 115%).

The number of sick days taken would reduce to 78,759 – an increase of 18,232 or 30%.

The average 'per sick day' cost of sick pay does not need to be adjusted for employee numbers.

Bereavement Leave

Raw Data

The total cost of bereavement leave in the year ending March 2005 rose to \$1,072,700 from \$380,500 in 2004. This increase of \$692,200 represents a 182% jump in the cost of bereavement leave in 12 months.

As with sick leave, a portion of this increase can be attributed to 'relevant daily pay' providing removing a disincentive to abuse bereavement leave entitlements. The year ending March 2004 saw 4,496 days taken as bereavement leave. This compares to 7,405 days taken as bereavement leave in the year ending March 2005. This is an increase of 2909 days, or a 65% jump.

However, as with sick leave, this effect of removing the disincentive can be filtered out by comparing the average cost of a bereavement leave day in 2004 and 2005. The average was \$84 in 2004, compared to \$145 in 2005 - a jump of 73%.

Adjusted Data

When the incidence of taking sick leave is adjusted for employee numbers, the figure to the year ending March 2005 becomes 7168 days taken as bereavement leave – an increase of 2672 (or 59%) over that for year ending March 2004.

The total cost of bereavement leave in the year ending March 2005, once adjusted for employee numbers, would be \$1,038,400 – a 173% increase.

The average 'per day taken' cost of bereavement leave does not need to be adjusted for employee numbers.

Combined Cost of Increased Entitlements

The survey has highlighted that the increased employee entitlements under the Holidays Act are quite dramatic. The adjusted cost of public holiday pay is up 62% even though Anzac Day fell on a Sunday and many plants closed on other public holidays. The adjusted cost of sick leave is up 115% with the average sick day payment rising 60%. The cost of bereavement leave has leapt 173%, with the average payment for a day's bereavement leave now \$145 - up from \$84 in 2004.

When one looks at their collective impact as a proportion of total payroll costs, the combined adjusted increase in the cost of public holiday pay, sick leave and bereavement leave in the year ending March 2005 was \$17.16 million.

This is a substantial ongoing liability to bear as a result of a single policy decision made at Select Committee. What is more, unlike other factors that contribute to increased payroll cost (e.g., higher

production throughput and higher wage being paid to better skilled staff) it cost comes with little tangible benefit to industry and moves only to erode both the industry's international competitiveness and the economic viability of continuing to conduct 'value-added' processing in New Zealand.

As a final point, the financial impact of 'relevant daily pay' was less than that initially estimated by our Members, which is in part due to the industry successfully implementing strategies to minimise its exposure to the potential increased costs associated with the Holidays Act. Such strategies have included closing on public holidays, and applying contractually agreed leave entitlements more conservatively where they are over and above the strict legal requirements embodied in the Holidays Act.

OTHER COSTS ASSOCIATION WITH THE HOLIDAYS ACT

Not all of the financial impacts of the Holidays Act are directly reflected in the total cost of payroll.

The contingent cost of accrued sick leave, for example, increases in accordance with the notional value of each sick day. The total contingent liability for accrued sick leave in the year ending March 2005 was \$28.9 million – up 76% from the \$16.4 million contingent liability accrued as at March 2004. [Adjusted for employee numbers this becomes a \$28 million contingent liability up 71% on the previous year.]. It should be noted, however, that there are significant gaps in the data submitted on the sick leave accrued (days/cost) and thus the contingent liability figure stated above likely understates the situation.

The costs of disruption associated with higher incidence of sick and bereavement leave, and management time managing absenteeism is another example, with a number of plants reporting their individual costs of disruption as amounting to hundreds of thousands of dollars, incurred over periods of weeks rather than months. This descriptor also applies to revenue lost due to down-grading of product, loss of production, specification changes and other production losses that would not have occurred but for absenteeism. Some respondents indicated that their estimated costs did not include the cost of sick pay or labour costs for replacement staff. Collectively, the cost attributed to disruption is \$3.24 million.

Examples of these associated costs cited by Members included:

- Relevant daily pay ('RDP') now paid on non-work injuries for first week - 43% increase
- Payroll Software changes; Payroll Administration costs
- 10% additional administration time
- Unspecified losses due to manning shortages, administration and management time
- Disputes over interpretation
- Restructuring of operations prior to change to Act
- Day in lieu costs increased due to RDP; shift leave component in RDP is also extra