December 2010

ACC – 2011/12 Levy Rates, Experience Rating & Stocktake

The Minister for ACC yesterday announced the "next steps" for ACC. Key features included:

- No increase in levy rates for 2011/12.
- Approving the introduction of experience rating into the Work Account.
- The decision "in principle" to introduce competition into the Work Account.
- Expansion of the Accredited Employers Programme in the short-term to allow more employers to join.

2011/12 levy rates

Our October newsletter gave details of the 2011/12 consultation levy rates. The proposed combined rates for the Earners' and Motor Accounts saw minor increases from the actual 2010/11 rates, while there was no change to the combined rate for the Work Account. However, these rates, recommended to the Minister by the ACC Board (and confusingly published in today's major daily newspapers), were rejected by Cabinet, which instead opted to hold the rates at the 2010/11 levels for all Accounts.

The Minister's reasons for not increasing levies included:

- ACC's move to a 105% funding target in addition to a (75% probability of adequacy) risk margin is "overly conservative".
- Keeping pressure on ACC to control its costs rather than passing on cost increases.

The average levy rates for 2011/12 for each Account are shown in the table below:

	Work $ per $100 LE	Earners' $ per $100 LE	Motor $ per vehicle
Current	1.06	1.99	234
Residual	0.41	0.06	100
Combined	1.47	2.05	335

Note that the rates shown for the Earners' Account include GST at 15%.

Other recommendations of the ACC Board including reducing the residual levy in the Work Account and increasing the petrol levy in the Motor Account were also discounted by Cabinet. The rejection of ACC's proposal to reduce the average residual levy from $0.41 to $0.31 and increase the current portion by the same amount will be a disappointment for accredited employers who were expecting a decrease in the residual rate.

Changes to levy risk groups

As part of the 2011/12 levy consultation ACC recommended increasing the number of levy risk groups in the Work Account from 117 to 143 and changing some classification units between levy risk groups. The recommendation was made in order that the levy charged give a better fit to historical claims experience for each classification unit.

Examples of changes include splitting the classification units for sheep-beef cattle farming and dairy cattle farming into separate levy risk groups and moving architectural services, previously in a low risk group with legal and accounting services, to a new risk group – Design and Engineering Services.

In addition, it was proposed that any change in levy as a result of classification unit changes be capped at 15%. Because of this cap it may take several years to align a classification unit with the levy rate charged to other members of the levy risk group.

The Minister has accepted these changes excepting where the 15% cap would mean a very small, or no change in levy, where a change of up to $0.02 would be allowed.

Introduction of experience rating

Our October newsletter gave details of the proposed experience rating scheme. The scheme, which will commence on 1 April 2011, has been approved by the Minister with some minor amendments. First, fatal claims will now be counted – both for the risk management component of the experience rating for large employers and for the no claims discount measure for small employers. The other change is to the measure used for the no claims discount scheme for small employers which is now the number of weekly compensation days paid or one fatal claim, rather than just the number of weekly compensation claims.

The table below summarises the new measure for the no claims discount for small employers:

During experience period	Levy adjustment
No WC or fatal claims	10% discount
1-70 WC days paid	no adjustment
More than 70 WC days paid or any fatal claim	10% loading

Employers should note that where there are five days compensated in a week, the full week (seven weekly compensation days) will count towards the experience rating measure. Similarly, abated weekly compensation days i.e. for employees on graduated return to work programmes, will be counted as full days.

We recommend that all accredited employers obtain a quote of their experience-rated levy for 2011/12 from ACC.

WSMP discounts

ACC had proposed to reduce the WSMP discounts for standard employers; however employers successfully lobbied to continue the current 10%, 15% and 20% discounts.

ACC Stocktake

The Steering Group for the Stocktake of ACC Accounts was established to assess the performance of the ACC Scheme at the individual account level and to assess the feasibility of competition in the Work Account. Some key points from the Steering Group's report are given below:

- The increase in ACC's liabilities of $5.8 billion over the period from 2004 to 2009 was "due to unanticipated increases in claims costs that were almost all within the control of ACC management".
- The Steering Group considers the current structure of ACC to be "fatally flawed" and that only major structural change associated with the introduction of private competition can remove the risk of further unanticipated losses.
- Private competition is "necessary", "feasible" and "would have merit".

In response to the Steering Group's report, Cabinet has moved to extend the Accredited Employers Programme in the short-term (see next section) and made a decision "in-principle" to introduce competition to the Work Account in the long-term. The Government intends to issue a discussion paper detailing the introduction of competition into the Work Account around May 2011; however the introduction of legislation would not be until after the 2011 General Election. In contrast to 1999, and against the recommendations of the Steering Group, ACC will remain a provider of workplace accident insurance.

Consideration is also being given to providing choice in other ACC accounts however the initial advice to Government on the subject is not due until June 2011.

Changes to the Accredited Employers Programme

The complexities of introducing competition into the Work Account have led Cabinet to move to extend the AEP in the short-term. Accordingly it is proposed that:

- The benefits of participating in the AEP are more actively promoted to those not participating.
- Compliance costs of entering and remaining in the Programme be reduced.
- Barriers to entry of the AEP be reduced by providing a greater range of options tailored to small as well as large employers. Examples include having shorter and longer cover periods than currently provided; allowing lower stop-loss cover levels; and allowing proportional risk-sharing between employers and ACC (e.g. a 25% reduction in levies in exchange for the employer taking on 25% of the total risk).
- Accredited employers be allowed to purchase insurance options such as high cost claims cover from private insurers, rather than from ACC.

Cabinet is to receive details of the proposed changes from the Department of Labour by 23 February 2011. Public consultation will follow.

Links to documents released

The documents released on 21 December can be accessed via:

http://www.beehive.govt.nz/release/next-steps-acc-announced

Indicative Work Account levy rates for 2011/12 by classification unit and risk group can be found at:

http://www.acc.co.nz/PRD_EXT_CSMP/groups/external_levies/documents/papers_plans/wpc090416.pdf

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