ACC

Consultation levy rates for 2014/15

MJW Topix

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Introduction

ACC recently announced the consultative levy rates for the 2013/14 year.

In this newsletter we outline the new rates along with our comments based primarily on the content of the Consultation Documents.

Key features of the rates include:

- Reductions in the average levy rates for the Work Account and Earners Account.
- The Residual Claims Levy remains unchanged at 31 cents per $100 liable earnings.
- Reduction to the overall Motor Account levy, while introducing a risk rating basis dependent on a vehicle's make and model, and the crash history of that model.

While the good experience over the last year has contributed to the fall in the levy rates, the major factor is that the reductions would have taken effect last year if the Government had adopted the ACC proposed rates for the 2013/14 year. The higher levies charged in the current year will have further improved the accounts funding position. The reductions in large part arise from the new funding policy adopted by the Board in 2012.

Submissions on the rates are due 15 October 2013.

Summary

The tables below summarise the levy rates for the three accounts.

Work Account ($ per $100 liable earnings)

	Current	Residual	Combined
2013/14 actual	$0.84	$0.31	$1.15
2014/15 proposed	$0.64	$0.31	$0.95
Change	-24%	0%	-17%

Earners' Account ($ per $100 LE excl GST)

	Current	Residual	Combined
2013/14 actual	$1.44	$0.04	$1.48
2014/15 proposed	$1.22	$0.04	$1.26
Change	-15%	0%	-15%

Motor Account ($ per vehicle excl GST)

	Current	Residual	Combined
2013/14 actual	$254	$77	$331
2014/15 proposed	$203	$77	$280
Change	-20%	0%	-15%

Accredited employers

While the residual levy remains unchanged the administration fee and the fees for Primary Health Costs and Bulk funded health costs have increased from 7.0% to 9.0% of the standard levy. The increase is reduced by the fall in the standard levy.

Work Account

The table below summarises the change in the components making up the levy.

Change in levy rate & breakdown of costs

	2013/14 Actual	2014/15 Proposed	Increase/ Decrease
Cost of claims	$0.53	$0.54	2%
Scheme costs	$0.18	$0.18	0%
Funding adj.	$0.05	($0.15)	-400%
Incentive prog.	$0.08	$0.06	-25%
Total	$0.84	$0.64	-24%

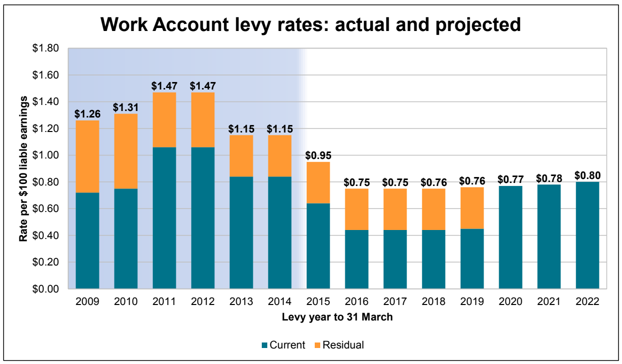
The table shows:

- 2% increase in claim costs (53c to 54c)
- No change in scheme costs (18c)
- A negative funding adjustment required to achieve the targeted funding level
- The cost of the incentive programmes including the WSMP has reduced from 8c to 6c.

To calculate the cost of claims, ACC makes assumptions regarding future claims frequency and severity. These assumptions are largely unchanged compared to last year. For further detail see the Appendix.

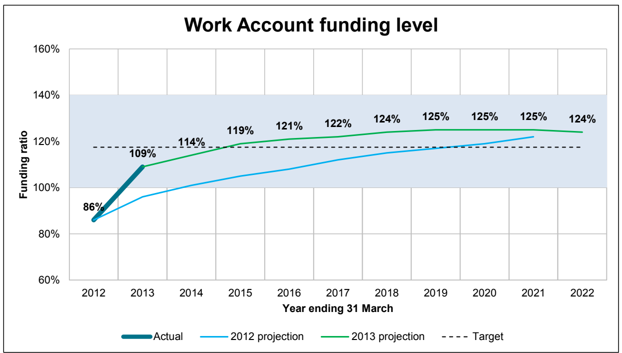
The table below shows the average levy rate from 2009 through to 2022. The high rates up to 2012 are apparent.

Levy rates 2009 to 2022



The levy is projected to drop further in 2015/16 and then slowly increase from here. ACC comment that the increase arises as claims inflation is expected to be higher than earnings inflation. The residual levy ceases to be payable in 2019 and at this point the current levy rate for standard employers jumps by 67% which will increase the attraction of the accredited employers programme.

Funding path to target of 117.5%



The chart above illustrates how the funding position has improved significantly over the course of the last year, over and above what was projected in 2012. The consultation documents attribute this to "improved claims experience and good investment performance". Expanding on this further:

- Weekly compensation claims are down
- The cost of other medical claims is down due to efforts to control the high cost of super imposed inflation
- Fewer than expected noise induced hearing loss claims were lodged
- Another favourable factor is the recessionary economic climate.

Gradual process injuries

Prior to the 2014 cover year, gradual process claims were funded on a 'claims made' basis. This means that the levy for, say, the 2012 year was calculated to fund those gradual-process claims notified to ACC in the 2012 year itself, regardless of when the gradual process occurred.

From the 2014 year onwards, ACC has changed the funding basis to a 'claims incurred' basis. This means that the levy for the 2014 year has been calculated to pre-fund the gradual-process claims where exposure (to the gradual process) is deemed to have occurred in the 2014 year. Estimating the future cost of these claims is highly uncertain as:

- By definition, gradual-process injuries take a very long time to emerge
- New types of gradual-process injuries may come to light and the exposure causing these may be occurring now
- The underlying exposure of gradual-process injuries must be allocated to particular years
- New and novel treatments may emerge in the future, which are impossible to accurately price now.

The change in basis is analogous to changing from a 'pay-as-you-go' basis to a 'pre-funded' basis and, all else equal, results in a small increase in the current costs and levy.

Another consequence of the change was an immediate increase in the outstanding claims liability for the Work Account. This is because the liability now needs to allow for those gradual process claims where exposure has already occurred, but a claim has not been made – ie IBNR claims. The amount of this increase was put at $325m in the 2013/14 technical report.

Earners' Account

The table below summarises the change in the components making up the levy. The rates exclude GST.

Change in levy rate & breakdown of costs

	2013/14 Actual	2014/15 Proposed	Increase/ Decrease
Cost of claims	$0.91	$0.95	4%
Scheme costs	$0.29	$0.29	0%
Funding adj.	$0.24	($0.02)	-108%
Total	$1.44	$1.22	-15%

The table shows:

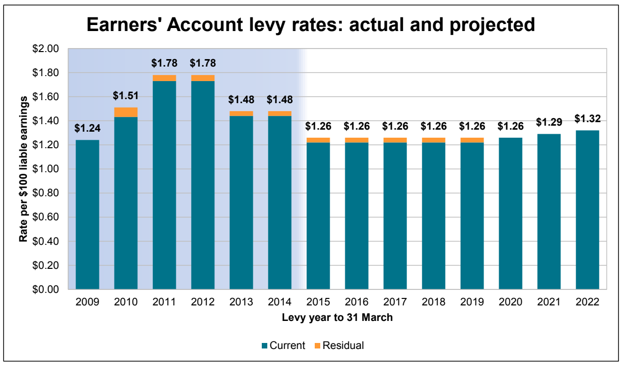
- 4% increase in the cost of the claims (91c to 95c)

- No change in scheme costs (29c)
- A decrease in the funding adjustment required to achieve the targeted funding level.

As for the Work Account, the ‘cost of claims’ component is similar to last year.

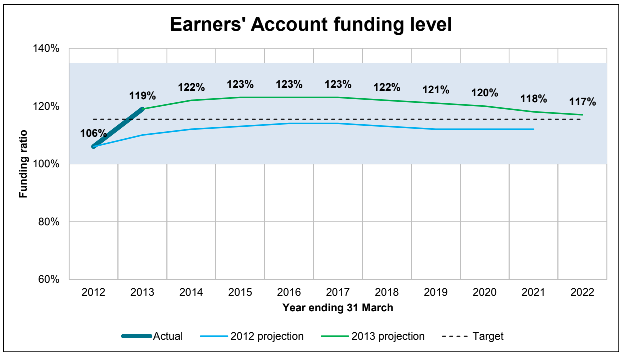
The chart below shows the average levy rate from 2009 through to 2022.

Levy rates 2009 to 2022



The levy is projected to remain at $1.26 until 2020 and increase beyond this period.

Funding path to target of 115.5%



The funding position as at 31 March 2012 was 106% however this improved to 118% as at 31 March 2013.

Motor Account

The table below shows the change in the components making up the levy.

Change in levy rate & breakdown of costs

	2013/14 Actual	2014/15 Proposed	Increase/ Decrease
Cost of claims	$120.83	$124.93	3%
Scheme costs	$19.41	$19.15	-1%
Funding adj.	$112.27	$58.10	-48%
Motorcycle safety	$1.10	$0.75	-32%
Total	$253.61	$202.93	-20%

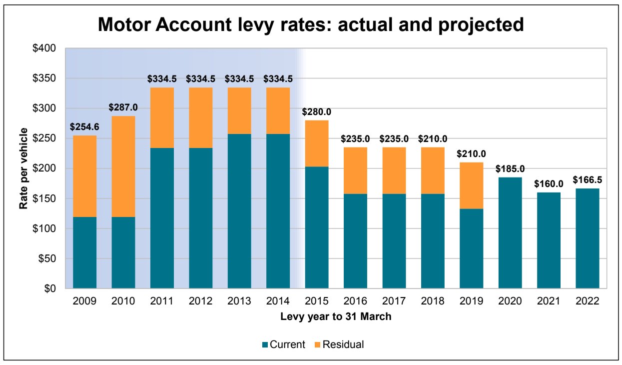
The table shows:

- 3% increase in the cost of the claims ($120.83 to $124.93)
- 1% reduction in Scheme costs ($19.41 to $19.15)
- 48% reduction in the funding adjustment required to achieve the targeted funding level
- A reduction in the motorcycle levy.

As for the Work and Earners Accounts, the ‘cost of claims’ component is similar to last year.

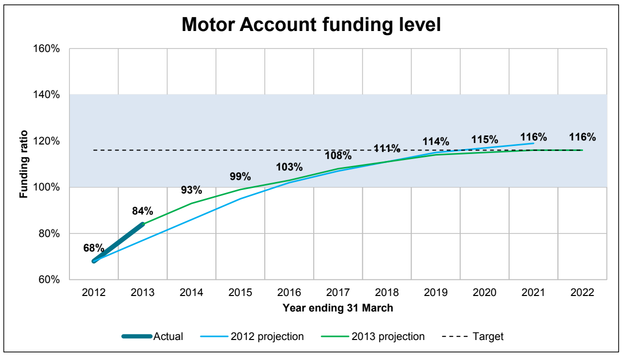
The following table shows the average levy rate from 2009 through to 2022.

Levy rates 2009 to 2022



The levy is projected to reduce steadily over the period to 2020 and then commence rising in 2021. As with the other levies the rates have been smoothed to eliminate a jump once the residual claim costs have been paid.

Funding path to target of 116%



The funding position improved from 68% to 84% during the year. The funding position deteriorated in 2009 when a change in the basis for estimating costs and liabilities caused a jump in the outstanding claims amount. This was also a contributing factor to increased levies for the 2011 year.

Partnership Programme

There have been no changes to the structure of the ACCPP. There will be small percentage increases in the administration fee and bulk funded health costs, however the reduction in the standard levy rate will reduce these increases.

The following table summarises the changes to the rates and discounts for the ACCPP.

ACCPP fees & discounts as % of standard levy

		Current 2013/14	Proposed 2014/15
Admin fee		2.3%	3.8%
Primary health costs		1.3%	1.2%
Bulk funded health costs		2.9%	4.0%
PDP discounts	1 year	51.9%	54.8%
	2 year	59.3%	61.3%

There have been no changes to levels of stop loss and High Cost Claims Cover available. The reduction in the rates means that the minimum and maximum levels of cover which are expressed as a % of the expected claim costs have increased slightly. The minimum of 160% of expected claims is now 123.2% of the standard levy and the maximum of 250% of expected claims costs is 192.5% of the standard levy.

How attractive is the ACCPP to smaller employer?

Most accredited employers are the larger employers who would otherwise pay a high standard levy. In the example shown in the Appendix below we take a hypothetical employer paying the average levy rate of $0.69 per $100 liable earnings with liable earnings of $15 million and a WSMP rate of 10%. The table shows the levies payable and the break even claims scenarios and the charts show the range of the costs. For completeness we have considered both the highest and lowest levels of stop loss available and included the cost of administering the claims. In the case with the lowest stop loss level, to breakeven the claims must not exceed $41,603. Should the claims exceed this the employer will be paying more than under the standard levy. In the event of a large claim(s) the cost to the employer could rise to an additional $85,909. An employer would need to weigh up the benefits of the whole ACCPP against this potential adverse cost outcome. In practice one would expect that in most years the employer will enjoy a saving from being in the ACCPP.

ABOUT MELVILLE JESSUP WEAVER

Melville Jessup Weaver is a New Zealand firm of consulting actuaries. The firm was established in 1992 and has offices in Auckland and Wellington. The firm is affiliated to Towers Watson, a global professional services firm that helps organisations around the world optimise performance through effective people, risk and financial management. Towers Watson has offices in 25 countries and the business covers human resources services, reinsurance and Tillinghast.

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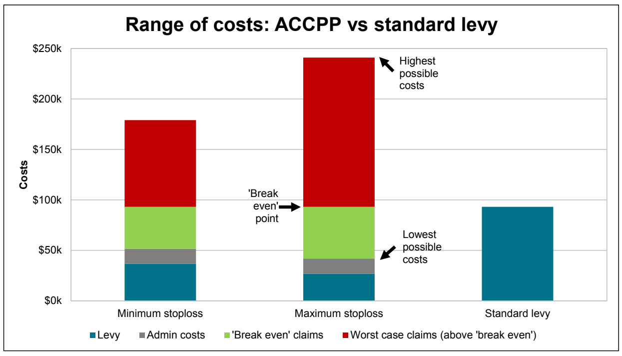
Appendix

ACC Partnership Programme example

Stoploss HCCC	160% none	250% none	Standard levy
ACC levies			
BHC	3,726	3,726	-
Admin	4,378	4,378	-
Options	28,443	18,706	-
ACCPP levy	36,547	26,810	93,150
Stoploss	127,512	199,238	n.a
'Break even' claims scenario			
Admin costs	15,000	15,000	-
Claims	41,603	51,340	93,150

Cost of new claims

	2013/14 Actual	2014/15 Proposed	Increase/ Decrease
Number of workers	1,953,924	1,983,963	1.5%
Claim frequency	0.95%	0.96%	1.1%
Entitlement claims	18,551	19,039	2.6%
Discounted costs	$436m	$462m	5.9%
Liable earnings	$82,251m	$85,136m	3.5%
Levy to fund claims	$0.53	$0.54	1.9%



The table and chart above provide further detail relating to the example of a small employer in the ACC Partnership Programme as discussed above.

The table to the left gives a more detailed break-down of the levy rate to fund the Work Account.