ACC

Consultation levy rates for 2015/16

May 2014

Introduction

ACC recently announced the consultative levy rates for the 2015/16 year. In this newsletter we outline the new rates along with our comments based on the content of the Consultation Document.

Key features of the rates include:

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

The consultation document reveals that, for the first time, the Work, Earners' and Motor Accounts are all fully funded. That is, they each have sufficient assets to meet their liabilities. The objective of full funding has been targeted since the year 2000, so this is a significant milestone.

Submissions on the rates are due 17 June 2014.

Before reviewing the rates we comment on a major problem with the rates arising from the decision made in 2010 to fix the amount required to fund the pre 1999 work and pre 1992 non-work claims.

Summary

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

Work Account ($ per $100 liable earnings)

	Current	Residual	Combined
2014/15 actual	$0.64	$0.31	$0.95
2015/16 proposed	$0.44	$0.31	$0.75
Change	-31%	0%	-21%

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

	Current	Residual	Combined
2014/15 actual	$1.22	$0.04	$1.26
2015/16 proposed	$1.16	$0.04	$1.20
Change	-5%	0%	-5%

Motor Account ($ per vehicle excl GST)

	Current	Residual	Combined
2014/15 actual	$254	$77	$331
2015/16 proposed	$142	$58	$200
Change	-44%	-24%	-40%

Accredited employers

While the residual claims levy remains unchanged the administration fee and the fees for Primary Health Costs and Bulk funded health costs have increased from 9.0% to 13.2% of the standard levy. The increase is largely due to the fall in the standard levy.

MJW comment

It is ironic that at the same time Parliament is debating major improvements to New Zealand's health and safety legislation, ACC is proposing a set of levy rates which penalise employers who are actively engaged in providing safer workplaces to their employees. How can this be the case?

At the root of the problem is the basis by which ACC determines the residual claims levy (RCL), the levy to pay for the pre 1999 workplace claims. Due to ACC's poor claims experience from 2005 to 2009 the RCL was increasing each year and as part of ACC's response to employer's concerns it 'locked in' the amount of the liability and hence the future levy payable to 2019. However thanks to ACC's improved claims management from 2010 onwards, and revisions to noise-induced hearing loss claim eligibility, the 'locked in' amount is now much higher than actually necessary. The result means surplus funds are arising in respect of the pre-1999 part of the Work Account, and these funds are effectively being used to fund the standard employers' *current* claims. The result sees:

- The accredited employers, who pay all or part of their own claims costs, are now subsidising the cost of the claims incurred by standard employers, and
- The standard employers who have qualified for WSMP discounts and experience rating discounts are seriously denied the full value of these workplace safety initiatives.

ACC is fully aware of the issue as the Annual Reports and Financial Condition Reports for 2012 and 2013 from the actuary both recommended action which was agreed by the ACC board. So why have we seen no action?

Making the necessary changes to address the issue requires legislative changes and as yet, the Minister has chosen to let the matter lie. Again the question is why? The only answer we can surmise is that the issue will be addressed, but only when the

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Government decides to finalise the future funding policy for setting all ACC's levy rates. This has been held over for some years but changes are imminent per the budget release from the Minister. While we can in some respects understand this, we would still argue that for the sake of ACC's credibility, at a minimum, changes are required now. The change is needed to allow ACC to produce a sensible set of levy rates for 2015/16 for all the employers concerned with achieving safer workplaces for their employees.

The Government has before the House the Health and Safety Bill which calls upon ACC to establish incentive programmes for employers. Accordingly, the bill needs to be amended to deal with the problems regarding the RCL. We are confident that the Government will want to make the change.

At the same time it will be important for employers to make submissions to ACC and possibly the Minister on the proposed levy rates to resolve the problem.

Work Account

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

Work Account	2014/15 Actual	2015/16 Proposed	Increase/ Decrease
Cost of claims	$0.56	$0.57	2%
Scheme costs	$0.17	$0.17	0%
Funding adj.	($0.14)	($0.34)	143%
Incentive prog.	$0.06	$0.04	-33%
Total	$0.64	$0.44	-31%

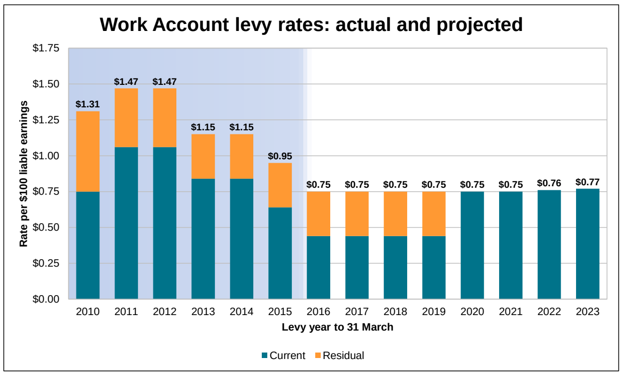
The table shows:

- 2% increase in claim costs (56c to 57c)
- No change in scheme costs (17c)
- A large negative funding adjustment required to achieve the targeted funding level
- The cost of the incentive programmes including the WSMP has reduced from 6c to 4c.

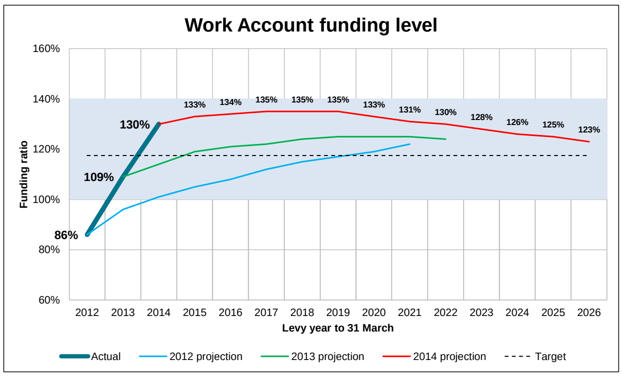
To calculate the cost of claims, ACC makes assumptions regarding future claims frequency and severity. The main ones are as follows.

Cost of new claims	2014/15 Actual	2015/16 Proposed	Increase/ Decrease
Number of workers	2,010,000	2,051,000	2.0%
Claim frequency	0.94%	0.95%	1.1%
Entitlement claims	18,964	19,414	2.4%
Discounted costs	$497m	$525m	5.9%
Liable earnings	$88,138m	$91,416m	3.7%
Levy to fund claims	$0.56	$0.57	1.8%

The table below shows the average levy rate from 2010 through to 2023. The high rates up to 2012 are apparent.



The levy is projected to remain stable for the foreseeable future. Gradual increases are expected from 2022 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 significantly increase the attraction of the accredited employers programme.



The chart above illustrates how the funding position has developed. In 2012 the Work Account had assets equal to 86% of its liabilities but by March 2014 this position had improved dramatically and the funding ratio was 130%. The ACC Pricing Report for the Work Account attributes this primarily to the increase in the discount rates used to value the outstanding liabilities.

Comment

As noted before the steep decline in the current levy of 31% creates problems for the accredited employers and those standard employers who qualify for the different safety management discounts including the experience rating discounts. The issue is of key importance to employers and to ACC itself. ACC fully recognises the issue and the Pricing Report referred to above comments further on the matter.

Earners' Account

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

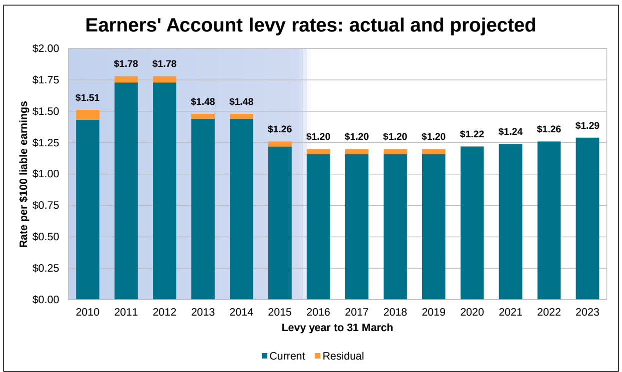
Earners' Account	2014/15 Actual	2015/16 Proposed	Increase/ Decrease
Cost of claims	$0.94	$0.97	3%
Scheme costs	$0.27	$0.27	0%
Funding adj.	$0.01	($0.08)	-900%
Total	$1.22	$1.16	-5%

The table shows:

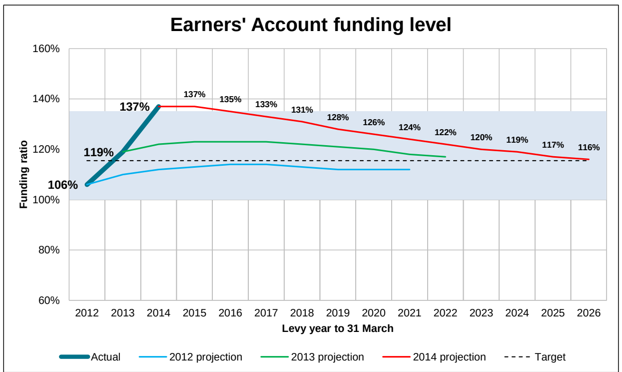
- 3% increase in the cost of the claims (94c to 97c)
- No change in scheme costs (27c)
- A decrease in the funding adjustment required to achieve the targeted funding level, as the account is now in surplus.

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

The chart below shows the average levy rate from 2010 through to 2023.



The levy is projected to remain at $1.20 until 2020 and increase beyond this period.



The funding position as at 31 March 2013 was 119% however this improved hugely to 137% as at 31 March 2013. The improvement was so large, and presumably unforeseen, that the Earner's Account is now outside its target funding band.

Motor Account

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

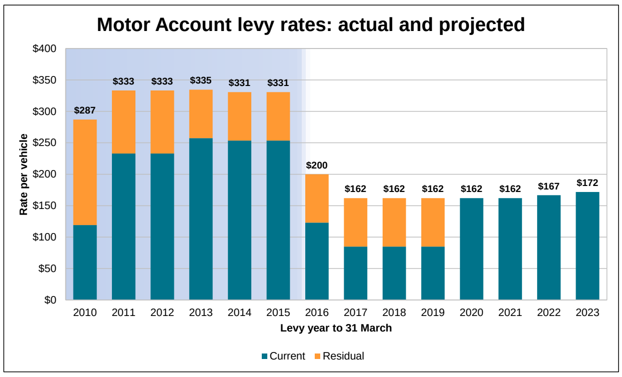
Motor Account	2014/15 Actual	2015/16 Proposed	Increase/ Decrease
Cost of claims	$116.35	$120.02	3%
Scheme costs	$21.87	$19.52	-11%
Funding adj.	$114.64	$1.41	-99%
Motorcycle safety	$0.75	$0.75	0%
Total	$253.61	$141.70	-44%

The table shows:

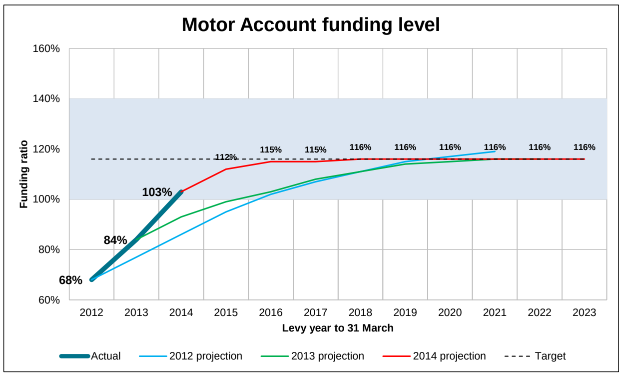
- 3% increase in the cost of the claims ($116.35 to $120.02)
- 11% reduction in Scheme costs ($21.87 to $19.52)
- A huge reduction in the funding adjustment required to achieve the targeted funding level. It all but disappears.
- No change to the motorcycle safety levy.

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 2010 through to 2023.



The levy is projected to reduce even further in 2017 and then remain relatively flat beyond this period. As with the other levies the rates have been smoothed to eliminate a jump once the residual claim costs have been paid.



The funding position improved during the year and for the first time, the assets held by the Motor Account exceed the liabilities.

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 2014/15	Proposed 2015/16
Admin fee		3.8%	6.2%
Primary health costs		1.2%	1.2%
Bulk funded health costs		4.0%	5.8%
PDP discounts	1 year	54.8%	53.5%
	2 year	61.3%	60.5%

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 190.4% of the standard levy and the maximum of 250% of expected claims costs is 297.5% of the standard levy. These percentages are much higher than past year, as the proposed standard levy has decreased so much.

How attractive is the ACCPP to 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 $0.44 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 $10,843. 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 $136,950. An employer would need to weigh up the benefits of the whole ACCPP against this potential adverse cost outcome. The indirect benefits of being in the ACCPP will need to be assessed such as an employer have full control of the rehabilitation of their employee as they seek to return to work.

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

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

ACC Partnership Programme example

Stoploss HCCC	160% none	250% none	Standard levy
ACC levies			
BHC	3,445	3,445	-
Admin	4,884	4,884	-
Options	25,228	18,435	-
ACCPP levy	33,557	26,764	59,400
Stoploss	125,664	196,350	n.a
'Break even' claims scenario			
Admin costs	15,000	15,000	-
Claims	10,843	17,636	59,400