

## ACC – 2011/12 Consultation on Experience Rating

### 1. Summary

The ACC Act was amended in March to allow for experience rating of employers after due consultation with employers and ACC has issued a document for this purpose.

Overall we see the following:

- The basis looks well structured.
- We would expect the rates for all large employers to vary from the standard levy
- While in theory discounts and loadings of up to 50% may be possible very few if any employers will achieve these levels.
- The no discount scheme for small employers is simply and straightforward.
- The scheme for the large employers is more complex.

Employers in the ACCPP will want to see what their rates would be if they were to exit the programme and therefore opt into the scheme.

#### **Content**

In this newsletter we just cover experience rating. A separate newsletter covers the levy consultation process.

The newsletter is based on the information in the Experience Rating Consultative Document published on 1 October 2010.

#### **Consultation closure deadline**

Consultation on the experience rating proposal closes at 5 pm on 29 October 2010. Submissions need to be made by then. We would be pleased to assist with submissions.

### 2. Background

ACC is proposing to introduce mandatory experience rating for employers and self-employed people in the Work Account (unless they are an exempt employer, as defined below) from 1 April 2011. Under the proposed system, employers who have “better-than-average” injury prevention and return to work rates would receive a discount on the portion of their levy for current claims, while those with “worse-than-average” experience would receive a loading. The residual portion of the levy would be unaffected.

(Exempt employers are those with liable earnings less than \$26,520 for 2011/12 year.)

The proposals allow for the make up of employers namely:

- 136 employers are in the ACCPP and make up 20% of the total liable earnings
- There are 5,050 “large” employers and 110,500 “small” employers, both with 31% of the total liable earnings
- There are 441,500 other employers, including self employed with 18% of the liable earnings.

### 3 Proposed framework

We have included in Appendix A an overview of how the scheme affects employers.

Every employer has a CU business classification which is assigned to a Levy Risk Group (LRG) with one levy rate. There are 117 current LRG's and ACC wants to expand the number to 143 to better allow for the each business's risks.

Small employers are defined as businesses where their work levy for their current claims (i.e. excluding the residual claims levy) in any of the last 3 levy years from April 2007 to March 2010 was less than \$10,000. This period April 2007 to March 2010 is known as the experience period. Large employers are those where their work levy for their current claims has been greater than \$10,000 for the last 3 years.

The period over which the cost and number of claims will be assessed is April 2007 through to September 2010, the activity period.

The existing Workplace Safety Discounts for small employers and the Workplace Safety Management Practices (WSMP) all stay in place except with reduced discounts.

### 4 Small employers no claims discount

Small employers with no weekly compensation claims will receive a 10% discount, while those with 4 or more weekly compensation claims will receive a 10% loading. Note this is after an adjustment of 7% to “load” for the discount.

### 5 Large employers experience rating

The Experience Rating Programme for large employers is a two step process:

- Industry size modification - with a discount/loading worth up to ± 15%

- Experience rating modification - with a discount/loading worth up to  $\pm 35\%$ .

**Industry size modification** Each LRG has a large and a medium industry peer group and an employer is allocated to one of the two groupings, depending on their size. All employers in each of the two industry peer groups in an LRG will have the same discount or loading factor. The “factor” depends on the total number of weekly compensation days in the last 3 years for each industry peer group and the credibility of the results. The credibility of the results of each industry peer group depends on how high a percentage of the total liable earnings they represent as a fraction of the entire LRG.

A medium employer is defined as one who has average annual earnings of up to \$2 million over the last 3 years, the experience period. The maximum discount or loading is  $\pm 15\%$ .

**Experience rating modification** This is made up of a rehabilitation component (75% weighting) and a risk management component (25% weighting). The rehabilitation component is measured by the number of weekly compensation days paid by ACC during the activity period for claims incurred during the experience period, while the risk management component is measured by the number of claims incurred for which the medical and elective surgery costs exceed \$500.

We have included an example of the rating process in Appendix B1.

## 6 Comment

It is very positive that ACC is introducing experience rating. While there are some risks with experience rating (e.g. some claims may not be reported or employees pushed back to work too early) it should operate to drive positive outcomes in regard to employers' behaviour for both preventing accidents and improving rehabilitation outcomes.

The major challenge with the Experience Rating Programme for large employers is how good will ACC be in working with them as employers in managing their claims and achieving good return to work outcomes for their employees. If successful then there are good discounts to be had under the programme. It is possible that employers may have to push ACC to make the scheme really work.

It appears that every large employer's levy rate will vary compared to the standard levy which will just become a reference point. Appendix A2 illustrates the range of results possible for both large and medium size employers. As expected the large employers have the greatest range of outcomes. Employers may probably have some idea based on their claims experience but they will need to wait for ACC to produce the results for them.

Overall the experience rating programme looks well designed.

## 7. Partnership Programme

We expect all Accredited Employers to enquire as to the impact for them if they chose to exit the ACCPP and become subject to the experience rating regime. If they could get a 50% reduction in the standard levy and have certainty of the cost then why would they stay in the ACCPP? However based on the illustration in Appendix A2 the number of employers with 20%+ discounts will be very limited.

However we do not expect many to change. The importance of managing their own claims is too important. But similarly some large employers may now decide to consider entering the ACCPP if they are going to be rated on their own experience, as this will allow them greater control of claims rehabilitation outcomes.

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### ABOUT MELVILLE JESSUP WEAVER

Melville Jessup Weaver is a New Zealand firm of consulting actuaries. The areas in which we provide advice include superannuation, employee benefits, life insurance, general insurance, health insurance, asset consulting, accident insurance and information technology. The firm was established in 1992 and has offices in Auckland and Wellington.

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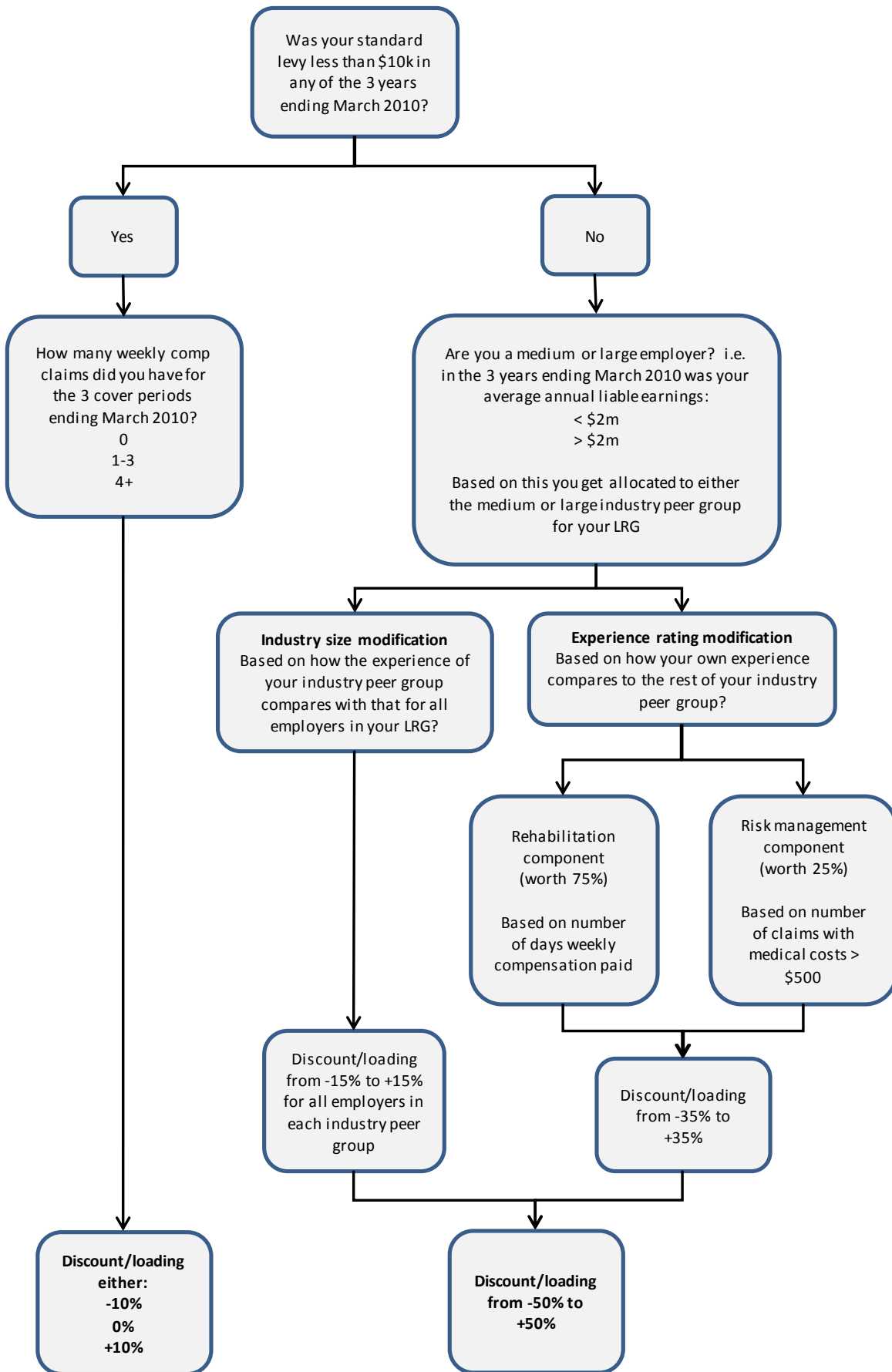
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**Appendix A**

**How the scheme works**



## Appendix B

## B1 Example of calculation

Information	Example
Levy risk group	LRG 14
Total liable earnings in experience period	\$15,000,000
Average annual liable earnings	\$5,000,000
Industry peer group for business group	Large group (>\$2m)
Number of weekly compensation days paid by ACC	10
Number of claims with medical costs >\$500	15
Credibility weight	18.54%

Step	Definition	Calculation	Outcome
<b>Weight to own experience</b>			
1	Determine weight to actual		[W] 18.54%
<b>Rehabilitation component (75%)</b>			
2	Actual rehabilitation rate	$(10 / \$15,000,000) \times 1,000,000$	[A] 0.67
3	Expected industry peer group rehabilitation rate		[E] 25.00
4	Determine uncapped rehabilitation modification	$((0.67 - 25.00) / 25.00) \times 18.54\%$	-18.04%
<b>Risk management component (25%)</b>			
5	Actual risk management rate	$(15 / \$15,000,000) \times 1,000,000$	[A] 1.00
6	Expected industry peer group risk management rate		[E] 5.00
7	Determine uncapped risk management modification	$((1.00 - 5.00) / 5.00) \times 18.54\%$	-14.83%
<b>Final experience rating modification (capped at 35%)</b>			
8	Determine modification	$75\% \times -18.04 + 25\% \times -14.83$	-17.24%
9	Off-balance adjustment		0.10%
10	<b>Total experience rating modification</b>		<b>-17.14%</b>
<b>Industry size modification (capped at 15%)</b>			
11	Industry size modification <sup>11</sup>		-7.50%
12	<b>Total experience rating programme modification</b>		<b>-24.64%</b>

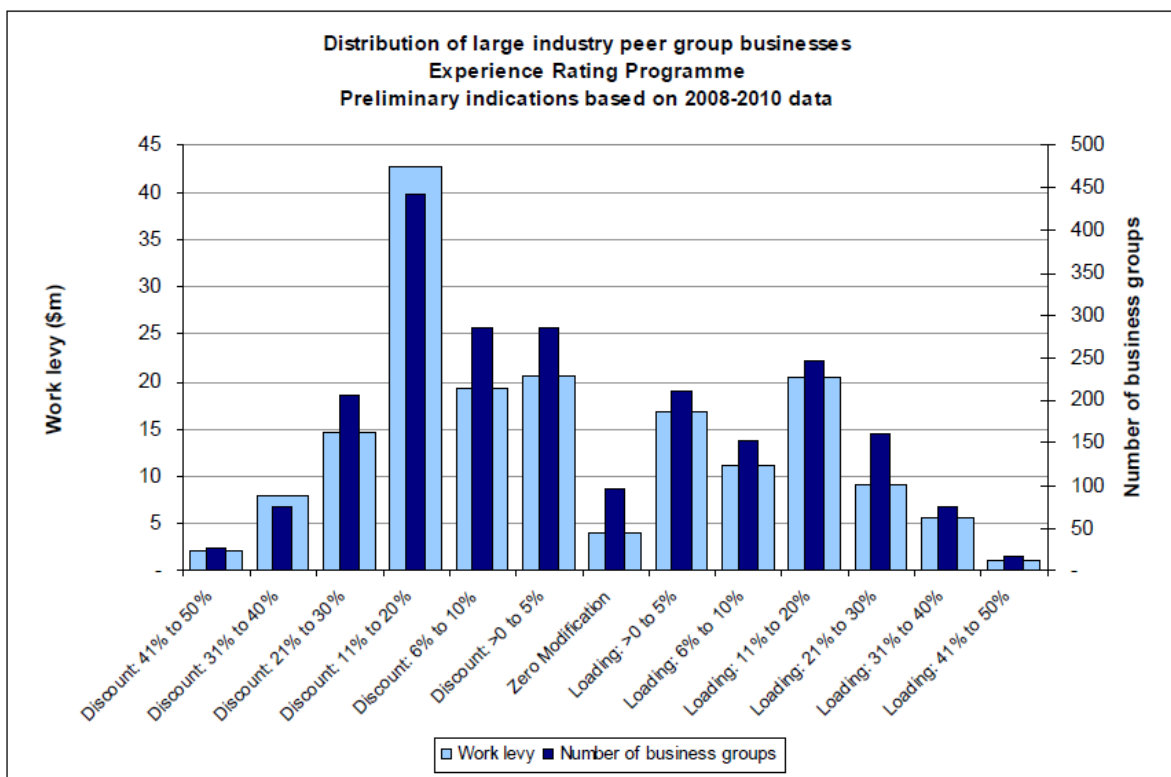
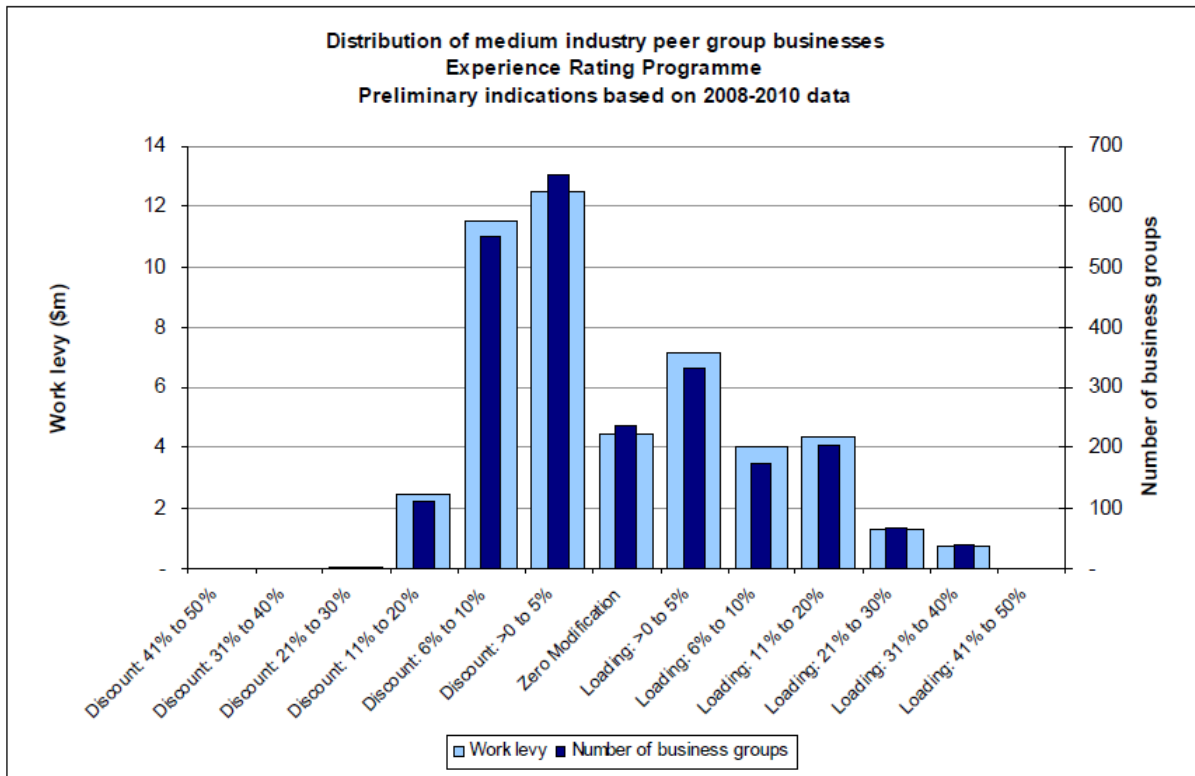
Annual levy calculation				
			Levy rate	Work levy
13	Work levy rate	Per \$100 liable earnings	\$3.00	\$150,000.00
14	Modification	\$3.00 x 24.64% (discount)	-\$0.74	\$36,960.00
15	<b>Modified work levy rate</b>	<b>Per \$100 liable earnings</b>	<b>\$2.26</b>	<b>\$113,040.00</b>

The employer concerned has liable earnings of \$5,000,000, and so is a large employer and has a “credibility” weight of 18.54%. The number of weekly compensation days lost per \$1 million liable earnings is 10 compared to an expected 15 for the large employers in the LRG. (Medium size employers will be compared to a difference number.) Applying the weight to this the reduction factor is -18.04%. The number of claims with medical costs exceeding \$500 is 15 which produce a rate per \$1,000,000 liable earnings of 1 which compares to the average for the large employers of 5. Applying the weight to this the reduction is -14.83%. (The maximum reduction would be 18.54% if there were no claims.) We then just apply the weights for each component i.e. 75% and 25% and the overall result is a reduction of -17.24%. There is a further minor adjustment.

We then need to apply the industry size modification which in this case was a negative 7.5% for all large employers in this LRG, giving a total discount of 24.64%

Source Page 29 ACC Experience Rating Information and Consultation Document.

**B2 Distribution of business groups by discount rate groupings split by medium and large employers**



Source Page 32 ACC Experience Rating Information and Consultation Document.