October 2010

ACC – 2011/12 Consultation on Levy Rates

1. Summary

As ever there is a lot going on with the rates in the ACC Consultation Documents and in viewing the levy rates this year and making comparisons with the 2009 Consultation Documents account has to be taken of:

- The change in the funding date for the pre 1999 claims from 2014 to 2019, even though it took effect from April 2010
- The Residual Claims Account has been merged with the Work Account for funding purposes.

We look at the Work Account, Earners Account and the Motor Vehicle accounts.

Overall we see the following:

- The levy rate for the average employer remains at $1.47 per $100 liable earnings.
- The estimated cost of claims for the current year 2010/11 is less than expected in the 2009 Consultation document, which is good news. The costs for 2011/12 increase.
- ACC continuing to revise its funding policy. What we see now is a higher funding target for all accounts of 105% with the Work Account to achieve this by 2016 and the Earners and Motor Vehicle Accounts achieving this by 2019.

For employers in the ACC Partnership Programme we see:

- Residual claims levy has reduced from an average $0.41 to $0.31 per $100 liable earnings for 2011/12 and through to 2019. Good news for Accredited Employers.
- However the WSMP discounts are reduced by 50%. A small increase in costs.
- The administration fees etc are reduced.
- There is no information yet on the stop loss rates.

Overall we would expect a cost reduction for Accredited Employers.

Content

In this newsletter we cover:

- Levy rates for 2011/12.
- Cost of the current claims.
- Projected levy rates through to 2019 and the funding levels of each Account.
- Partnership Programme.

The newsletter is based on the information in the Levy Consultative Documents published on 1 October 2010 and the 2009 Consultation Documents.

We cover the experience rating programme in a separate newsletter.

Consultation closure deadline

Consultation on the levy rate proposals and changes to the current levy groups closes at 5 pm on 29 October 2010. Submissions need to be made by then. We would be pleased to assist with submissions.

2. Proposed rates details

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

Work Account ($ per $100 liable earnings)

	Current	Residual	Combined
20010/11 Actual	1.06	0.41	1.47
2011/12 Consultation	1.16	0.31	1.47
Increase	9%	-24%	0%

Earners' Account ($ per $100 liable earnings incl GST)

	Current	Residual	Combined
20010/11 Actual	1.95	0.06	2.00
2011/12 Consultation	2.13	0.05	2.18
Increase	10%	-18%	9%

Motor Account ($ per vehicle inc. GST)

	Current	Residual	Combined
20010/11 Actual	$234	$100	$335
2011/12 Consultation	$266	$77	$343
Increase	14%	-23%	3%

3. Estimated cost of claims

The table below compares the estimated cost of claims for the three accounts for the 2010/11 and 2011/12 years as per the 2009 and 2010 Consultation Documents. The increase shown compares the costs for the 2010/11 year from the 2009 and 2010 Consultative Documents. The results are good with reductions for all 3 accounts.

Estimated cost of new claims ($m)

Account	2009 CD 2010/11	2010 CD 2010/11	2010 CD 2011/12	Increase
Work	597	518	566	-5%
Earners'	1,383	1,180	1,262	-9%
Motor	531	455	485	-9%

However from the 2010 Consultation Document we see increases in the total estimated costs of claims from 2010/11 to 2011/12. The tables below compare the components of the current (post 1999 injuries) levies for the projected 2010/11 claims with the projected 2011/12 claim costs in this year's Consultative Document i.e. the pre 1999 costs are excluded.

Work Account ($ per $100 liable earnings)

	2010/11	2011/12	Increase
Cost of claims	0.68	0.71	4%
Scheme costs	0.19	0.21	11%
Funding adj.	0.15	0.17	13%
Incentive prog.	0.04	0.07	75%
Total	1.06	1.16	9%

Earners' Account ($ per $100 liable earnings exc. GST)

	2010/11	2011/12	Increase
Cost of claims	1.22	1.25	2%
Scheme costs	0.36	0.37	3%
Funding adj.	0.15	0.24	60%
Total	1.73	1.86	8%

Motor Account ($ per vehicle inc. GST)

	2010/11	2011/12	Increase
Cost of claims	$145	$152	5%
Scheme costs	$22	$23	4%
Funding adj.	$66	$90	35%
Motorcycle safety	$1	$1	n.a
Total	$234	$266	14%

The impact of the increase in the funding adjustment component is clear particularly for both the Earners and Motor Accounts as is the 7 cent incentive programme loading in the Work Account.

Further details of the change in costs between the 2009 and 2010 Consultative Documents are included at the bottom of page 4. While confirming the reduction in cost of the claims it also shows the major impact the funding adjustment has on the resulting rates.

4. Pre 1999 claim costs

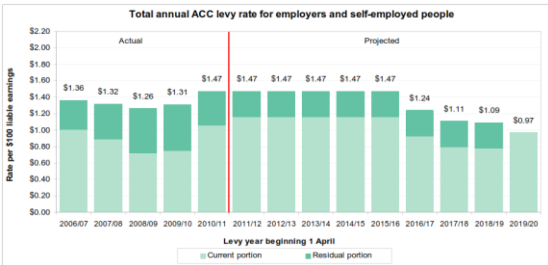
The tables in section 2 illustrate how the costs of the pre 1999 claims have fallen. The major fall is for the Work Account from 41 cents to 31 cents per $100 liable earnings. The reasons for this are not fully discussed but are good news for some employers, particularly the Accredited Employers.

The amendment to the Act earlier this year means that the historical liability to be funded was crystallised and is "locked in". Accordingly we would not expect the residual claims rates to vary in the future.

In the next 3 sections we show the projected levy rates through to 2019 and the improvement in the funding position over the period for the 3 accounts.

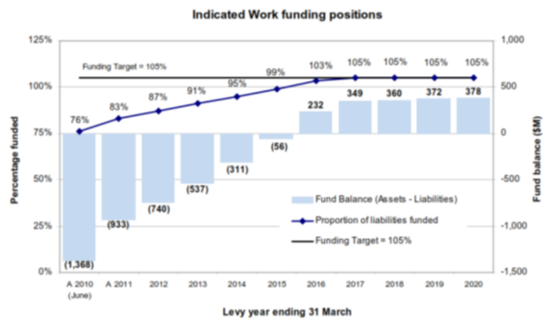
5. Work Account

The projected levy rates are flat through to 2016 and then reduce through to 2019. For 2019/20 the levy rate is 97 cents. Clearly the levy rates have been managed to reduce the impact of the residual portion ceasing in 2019.



Interestingly ACC could have reduced the rate for 2011/12 but have instead chosen to meet the funding target by 2017. The impact is that we see less of a reduction once the costs of the pre 1999 claims are met by 2019.

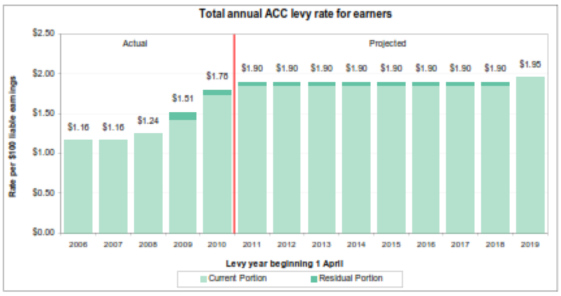
The chart below illustrates this further.



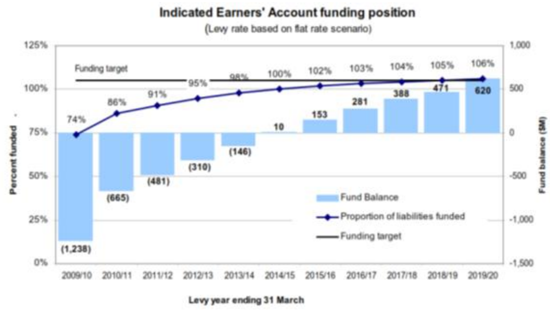
The funding position improves gradually over the period.

6. Earners Account

The levy remains flat through to 2019.



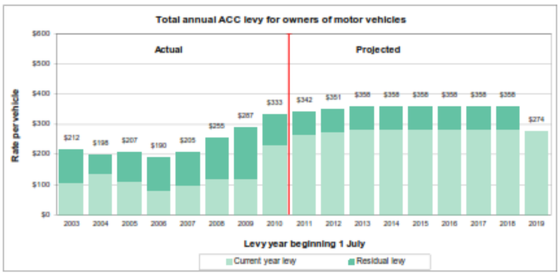
Why the rate increases in 2019 is not clear.



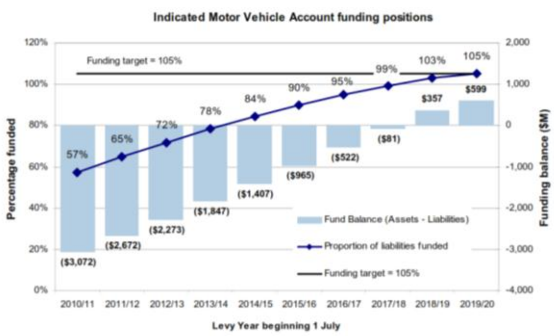
Again we have a steady improvement in the funding position through to 2019.

7. Motor Account

We see a different picture for the Motor Account which has the greatest deficit of the 3 accounts. This requires an increase in the levy for both 2011/12 and 2012/13 before we have a flat rate through to 2019. However from 2019 the rate reduces significantly once the pre 1999 claims have all been funded. It reduces from $358 to $274.



The chart below shows the significant starting deficit for the Account.



8. Comparison with the 2009 projections

For interest we have included a comparison of the projected rates through to 2019 for the 2009 and 2010 Consultative Documents at the bottom of page 4. The impact of the change in funding is apparent with major variations in the rates. Looking at this picture one is left wondering why the funding issues of ACC were not addressed earlier than they were and why no decision was made to change the 2014 date earlier than it was.

On a positive note the results for the Earners Account show how ACC has got on top of the costs in this Account.

9. Partnership Programme

There have been no changes to the structure of the ACCPP however the WSMP discounts for Primary, Secondary and Tertiary WSMP levels are now 5%, 7.5% and 10% respectively. This will be offset to a small degree by the reductions in the administration fee, Primary Health costs and bulk funded health costs.

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

		Current 2010/11	Proposed 2010/12
Admin fee		2.60	2.10
Primary Health costs		1.50	1.10
Bulk funded health costs		2.80	2.00
PDP discounts	1 year	49.8%	49.0%
	2 year	58.4%	57.1%
Incentives	WSD	10.0%	5.0%
	WSMP Primary	10.0%	5.0%
	WSMP Secondary	15.0%	7.5%
	WSMP Tertiary	20.0%	10.0%

There have been no changes to levels of stoploss and High Cost Claims Cover available. The rates have yet to be announced.

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. (See our other newsletter on this topic will be 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.

10. Final Comment

Every year we see major changes in the funding basis of the ACC levies. This year we see a decision made to increase the funding target to 105% and differences in the pace of funding of the 3 accounts.

The announcement of the rates was postponed this year and one is left with the view that the Government did not like the rates ACC initially intended to consult on for the Earners and Motor Accounts.

Unfortunately all aspects of ACC are very political. There are views in the marketplace which would like to see this change. There is a view that the Government should just set the scheme benefits and leave the market to set the resulting levy rates. Even if the decision is made not to introduce competition the Government could still set ACC up as a SOE with certain operating objectives and it could then decide itself what to charge for the benefits. We seem to be in a very similar position on rate setting under the current Government as was the case under the previous administration.

Work Account ($ per $100 liable earnings)

	2010/11 estimated costs		
	2009 CD	**2010 CD**	**Increase**
Cost of claims	0.87	0.68	-22%
Scheme costs	0.19	0.19	0%
Funding adj.	0.08	0.15	88%
Incentive prog.	0.04	0.04	0%
Total	1.18	1.06	-10%

Earners' Account ($ per $100 liable earnings exc. GST)

	2010/11 estimated costs		
	2009 CD	**2010 CD**	**Increase**
Cost of claims	1.58	1.22	-23%
Scheme costs	0.40	0.36	-9%
Funding adj.	0.34	0.15	-56%
Total	2.32	1.73	-20%

Motor Account ($ per vehicle inc. GST)

	2010/11 estimated costs		
	2009 CD	**2010 CD**	**Increase**
Cost of claims	$167	$145	-13%
Scheme costs	$20	$22	9%
Funding adj.	$18	$66	273%
Motorcycle safety	n.a	$1	n.a
Total	$205	$234	14%

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