December 2006

ACC rate changes for 2007/2008

1. Summary

ACC has recommended to Government the following average rates (for each $100 of liable earnings) for the 2007/08 year:

- An employer rate of 78 cents (currently 86 cents, the consultation rate was 67 cents).
- An employer and self-employed residual claims rate of 43 cents (currently 35 cents, the consultation rate was 54 cents).
- A self-employed rate of $1.77 (currently $2.03).

We understand that ACC will be publishing the individual rates on the recommended basis within a few weeks.

2. Comment

Although the total rate has not changed at $1.21, the Residual Claims Account (RCA) levy rate has increased by 23% compared with the previously recommended increase of 54%. Before this present change, the rates were leading employers in the Partnership Program to question the viability of remaining in the programme.

While detailed reasons behind the changes are not available, the changes appear to be the result of a rethinking of the funding of the cost of the gradual process claims. While these claims are still being funded within the RCA, the funding basis has changed.

It is hoped that we will see changes announced next year which will see a basis emerge to allow these claims to be funded on an “as and when the cost of the claims arises” basis, quite separate from the basis applied to the RCA.

3. Implications for employers in the ACC Partnership Programme

The ACC PP has real attractions in:

- enabling employers to manage their own claims using all their internal resources, to achieve quicker and more cost effective injury rehabilitation outcomes, and
- achieving cost savings.

Against this, there are the risks of claims costs exceeding the standard levy costs through poor accident experience.

The impact of the recommended changes will still see an increase in costs due to the increase in the administration fee.

Most employers are in the Full Self Cover Programme (FSCP), 123 out of 167. With the standard levy reducing by 11%, some smaller employers may wish to assess whether the benefits and attractions of being in the ACC PP are still of value to them. The larger employers may wish to consider whether they should switch to the Partnership Discount Programme (PDP) with the two year claims management period. The logic for considering this switch is:

- the relative cost of the PDP has reduced as the standard levy rates now include significant past surplus amounts which an employer can access by joining the PDP,
- an employer still continues to manage their own claims for two years after the cover period. While this is two years less than for the FSCP, it is not expected that that there will be many claims left after this two year claims management period, and
- at the end of the claims management period the employer hands over the claims to ACC. There are no hand-over costs to meet and no future liability for re-opened or new (IBNR) claims.

4. Assessing the costs

The table below gives our assessment of the different cost options for a hypothetical employer with liable earnings of $110 million and a standard levy of $1 million for the current year. We have assumed a 15% secondary SMP discount and that the employer takes the equivalent 150% stop loss cover for 2007/08 which could be purchased for the 2006/07 year. The example is the same as in our September 2006 Topix, updated with the new rates. We have modified the discount rate to allow for the rate change.

Scenario 1 – 80 %

	2006/07		2007/08		
	Rate	% std levy	Rate	% std levy	% change
Total costs					
Std levy	850	100.0	771	100.0	90.7
FSCP	680	80.0	709	91.9	104.2
PDP yr 2	832	97.9	774	100.3	92.9
Claim cost					
FSCP	509		509		
PDP	356		356		

Scenario 2 – 60%

	2006/07		2007/08		
	Rate	**% std levy**	**Rate**	**% std levy**	**% change**
Total costs					
Std levy	850	100.0	771	100.0	90.7
FSCP	510	60.0	539	69.9	105.6
PDP yr 2	713	83.9	655	84.9	91.8
Claim cost					
FSCP	339		339		
PDP	237		237		

The examples show:

- the standard levy has reduced by 9.3%, and
- in both examples the FSCP costs have increased by around 5% due to the increase in the administration fee. Similarly, the PDP cost has decreased.

The 80% FSCP example shows:

1. in the current year the projected cost saving from the FSCP is $170,000 when compared to the standard levy option and $152,000 when compared to the PDP option,
2. for the 2007/08 year the cost of the FSCP increases to $709,000, while the cost of the PDP year two option falls to $774,000, and
3. the difference between the FSCP and the PDP year two option has reduced to $65,000.

The 60% FSCP example shows:

1. in the current year the projected cost saving from the FSCP was $340,000 when compared to the standard levy option and $203,000 when compared to the PDP option,
2. for the 2007/08 year the cost of the FSCP increases to $539,000, while the cost of the PDP year two option falls to $655,000, and
3. the difference between the FSCP and the PDP year two option has reduced to $116,000.

The Appendix on page 3 has details of the 80% example.

5. Comment

When considering these results, it should be noted that while the FSCP cost is less (and has the advantage of possibly achieving greater savings), it also has a greater level of risk and adverse cost outcomes arising from poor accident experience.

The results suggest that where an employer's experience is reasonably high compared to the standard levy, a switch to the PDP year two option may be worthy of consideration.

Melville Jessup Weaver can assist employers to determine a cost assessment of whether their current ACC levy option represents the best option for the 2007/08 year.

A final point to note is that the rates will change if the legislation to merge the employer and self employed account is enacted by Parliament in March 2007.

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Appendix

Example - Company levy calculation – FSCP

	2006/07		2007/08	
	Standard $000	**ACCPP $000**	**Standard $000**	**ACC PP $000**
Liable earnings	116,279	116,279	116,279	116,279
Standard levy / Claims				
Levy rate - per $100	0.86	0.86	0.78	0.78
Standard levy	1,000	1,000	907	907
SMP discount	-150	-150	-136	-136
	850	850	771	771
FSCP discount		-813		-732
Bulk funded health care cost		37		39
Administration fee		15		37
Primary health cost fee		12		12
StopLoss / HCCC*		48		52
		111		140
Claims admin costs		60		60
Claims costs		509		509
Total costs	850	680	771	709
FSCP costs as % std costs		80%		92%
RCA levy				
Residual claims levy rate	0.35	0.35	0.43	0.43
Residual claims levy	407	407	500	500
Total costs	**1,257**	**1,087**	**1,271**	**1,209**

Example – Company levy calculation – PDP

	2006/07		2007/08	
	Standard $000	**ACCPP $000**	**Standard $000**	**ACC PP $000**
Liable earnings	116,279	116,279	116,279	116,279
Levy rate - per $100	0.86	0.86	0.78	0.78
Standard levy	1,000	1,000	907	907
SMP discount	-150	-150	-136	-136
	850	850	771	771
PDP discount		-461		-463
		389		308
Administration fee		15		37
Primary health cost fee		12		127
StopLoss / HCCC*		0		0
		416		357
Claims admin costs		60		60
Expected claims cost		356		356
	850	832	771	774
Residual claims levy rate	0.35	0.35	0.43	0.43
Residual claims levy	407	407	500	500
Total costs	1,257	1,239	1,271	1,274