ACCPP Liability Valuations

Helping understanding the actuaries' numbers

Topix

May 2013

Introduction

Employers in the ACC Partnership Programme (ACCPP) choose to manage and pay their own claims rather than pay the standard ACC levy. Those choosing to self-insure cannot be certain of their eventual ACC costs until the last of their ACCPP claims has been settled – potentially many years into the future.

Calculating this cost is where actuaries can help.

Most accredited employers request annual actuarial valuations which put a figure on the eventual cost of claims, or equivalently, value the outstanding claims liability at a point in time. MJW carries out these valuations for around 25 employers on a regular basis and the liability calculated is usually used in year-end accounts.

But how well are the results understood by the client, and how useful are the results overall to the employer in managing their health and safety risk? In this newsletter we explore this issue, plus the idea that some smaller employers should also be considering the ACCPP option.

Valuing the liabilities

The starting point to determine the outstanding liability is to review and analyse the historical claims experience of the employer. This is done by reviewing detailed data from the claims administrator and aggregated data supplied by ACC directly.

The data is then gathered by 'cover quarter', meaning all accidents occurring in, say, the March 2007 quarter are collected and analysed as a group. We then examine, again on a quarterly basis, how the claims costs for each of these groups have developed. In many cases we will now have more than ten years of data to investigate.

We look to see if we can identify a pattern of the costs over the lifetime of the claims. Intuitively, it is expected that most of the claim costs are paid during the first 1-2 years following the 'cover quarter' and in fact, many small claims will be completely closed during this time. However subsequently, depending on the particular employer, there can be serious claims which remain open, claims which 'reopen' having been previously closed and even newly-notified claims arising from injuries occurring some years ago.

Once established, the development pattern is used within actuarial methodologies to calculate the future expected costs. Allowances are also made for future claims handling costs and the time value of money.

Depending on the confidence we have in the data, the amount derived will automatically allow for the cost of claims reopening and for new claims from historical cover periods. Where there is some uncertainty around the data or new claim types are expected in the future (eg knee injuries), an additional provision can be made. Consideration is also given to improving or adverse claims trends based on the employer's own recent experience.

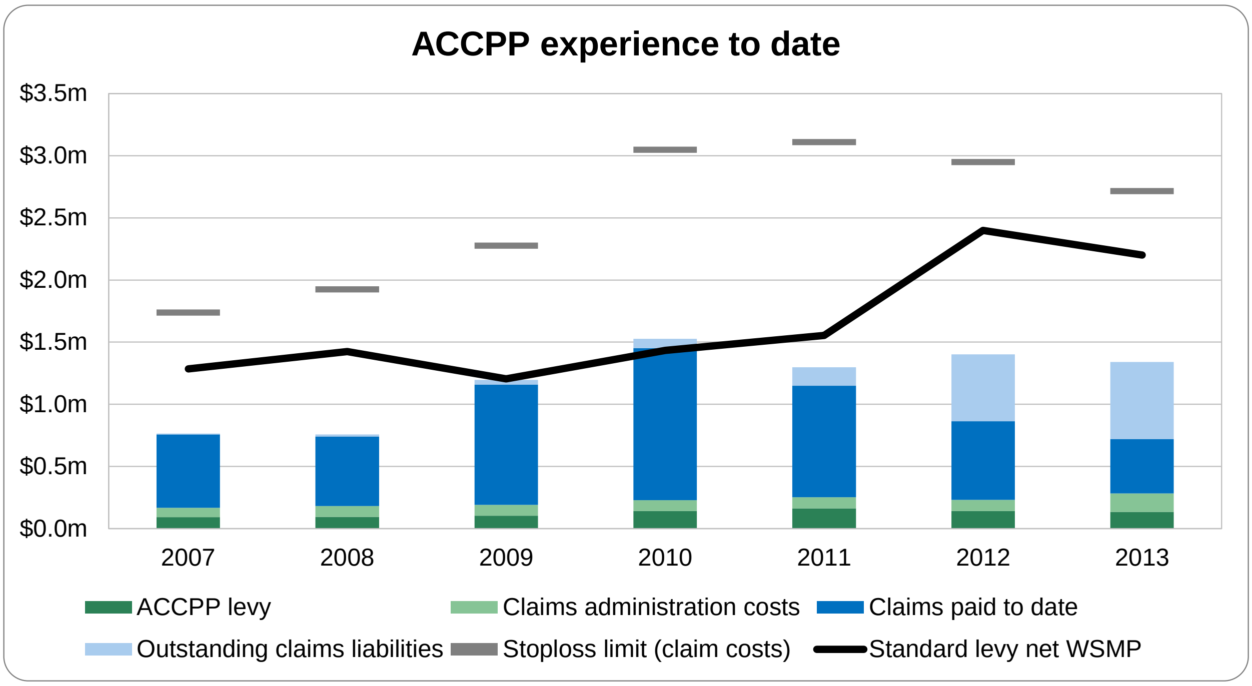
The approach followed does not include a 'risk margin' as the provision is being made for an accredited employer (rather than an insurer) meaning it is usually only interested in the actuary's best estimate of the liability.

Comparing the results to the standard levy

A key measure of the financial benefits of the ACCPP is the total eventual costs compared to the alternative of paying the standard levy. This comparison is made possible by valuing the outstanding liability and is illustrated on the next page.

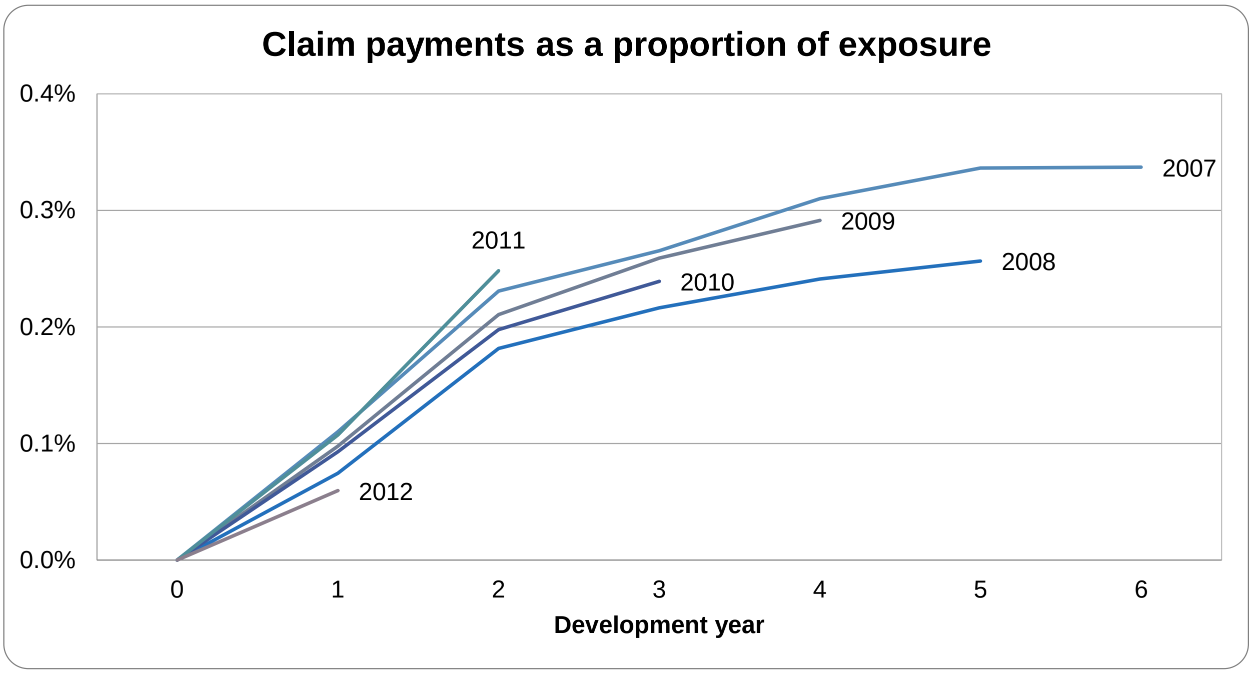
The black line on this chart represents the standard levy applicable to each cover year; this is a benchmark against which the costs can be measured and an accredited employer would aim to be below this. The green bars represent administration costs (ACCPP levy in dark green and claims administration costs in pale green). The blue bars relate to claim costs, the darker bars being costs paid to date and the pale bars being the future claims from the valuation.

Also shown is the stop loss limit which puts an ultimate cap on claim costs. The chart shows the positive experience of the employer in all years except for 2009 and 2010 where the total costs just exceed the standard levy. The stop loss limit illustrates that the claims were well below the chosen dollar limit.



Comparing the results for each year

Claim costs will vary by cover year and change over time due to economic inflation, as the number of employees change and as the activities of the employer change. Accordingly, it is useful to express claims costs as a proportion of liable earnings which allows more meaningful comparisons between years. This is shown in the chart below; 2007 was a poorer year and 2011 will be raising some concerns, though in contrast 2012 started well. A reason for the good 2012 result might be a new health and safety initiative.



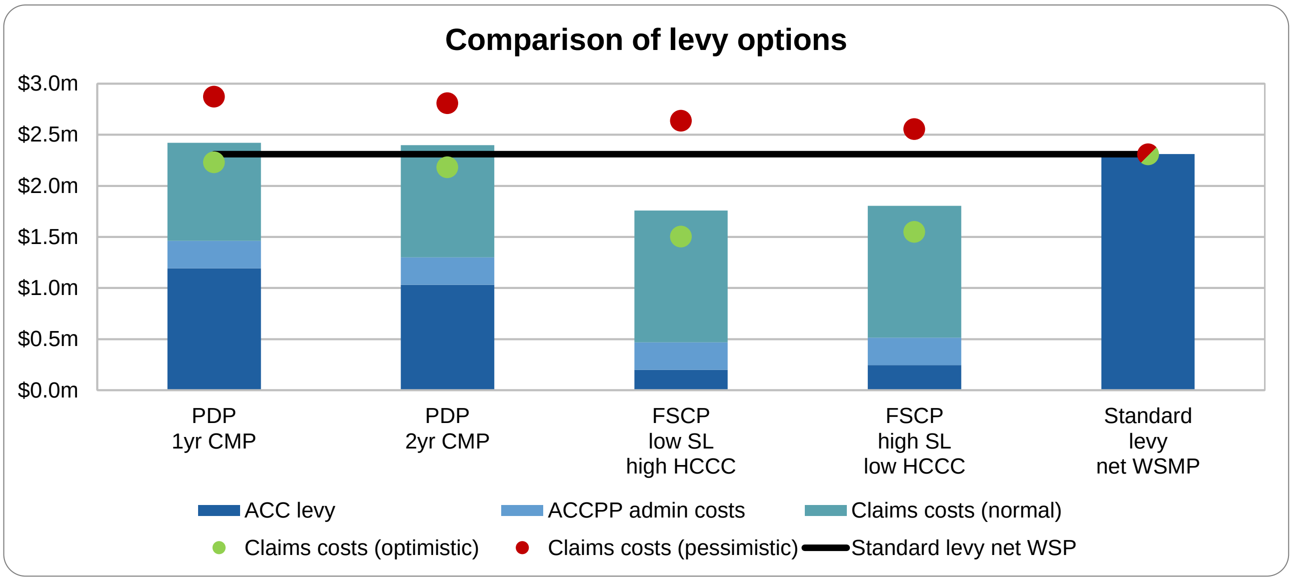
Levy options

There are two Plan choices within the ACCPP – the Full Self Cover Plan (FSCP) and the Partnership Discount Plan (PDP). Within these there is also the choice of stop loss limit (compulsory) and a High Cost Claims Cover (optional) which puts a cap on the employer's costs arising from a single event.

The cost outcomes arising can be assessed from considering some scenarios under various ACCPP options. A normal year, an optimistic year where the costs are lower than normal or a pessimistic with generally higher claims costs and one or more major accidents.

How these scenarios are illustrated is shown in the diagram below. The two best looking options are for the FSCP with either a low stop loss and high HCCC cover or a high stop loss cover and low HCCC cover. The latter costs marginally more as the low HCCC cover will come into effect early in the event of an expensive claim occurring.

In most cases the ACCPP costs are lower than paying the standard levy.

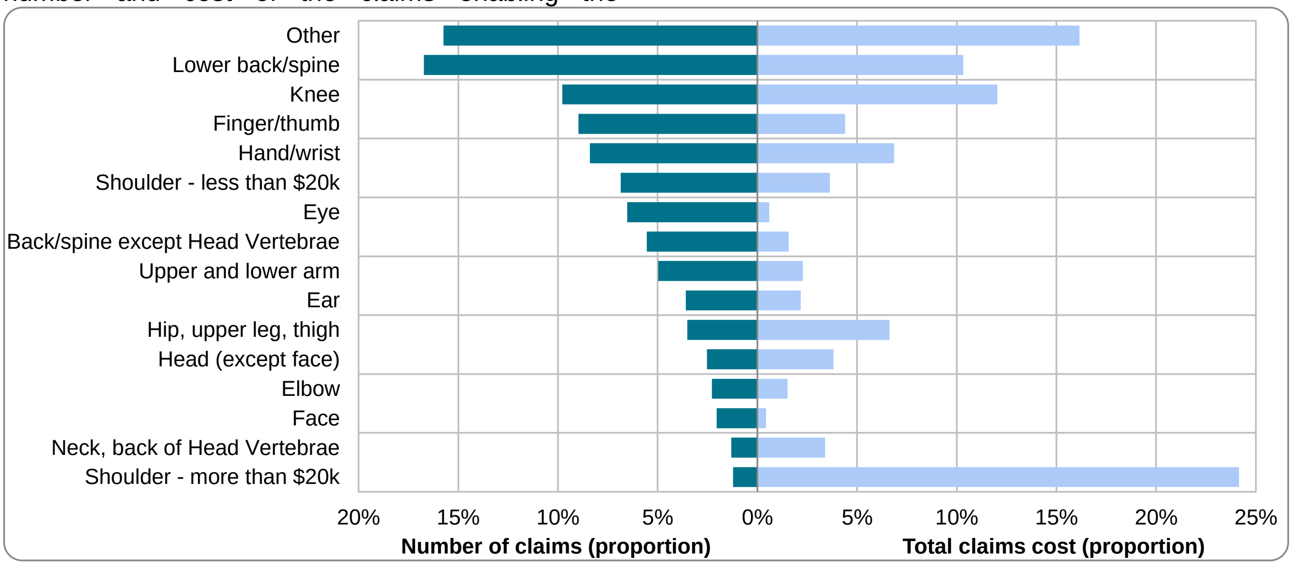


Claims analysis

Different types of claims will have different costs. The most frequent claims will have the lowest per claim costs while less frequent ones will be the more expensive. Examples of the former are lower back/spine claims and of the latter are knee claims. In other cases a small number of say shoulder claims can involve very high costs. Identifying these costs will enable resources to be directed to reduce the cause of the accident occurring.

The chart below compares, by injury type the number and cost of the claims enabling the reviewer to determine where to apply resources to reduce the costs. Further analysis can also compare the cost and frequency of weekly compensation and medical only claims. In some respects this analysis is analogous to the use of the LTI and MTI statistics.

The most revealing statistic is that shoulder injuries while amounting to around 2% of the injuries amount to nearly 25% of the costs.



The Partnership Programme for the smaller employer

To date the ACCPP has been seen in most quarters as the domain of the larger employers. But how viable is it for employers paying lower levels of levy, particularly in an era of low levy rates?

To illustrate this issue by way of an example, consider an employer with a levy rate of $1.02 per $100 liable earnings and earnings of $15m per annum. The standard levy for this employer would be $138k after a 10% WSMP discount. Alternatively, entering the ACCPP under the FSCP would mean a reduced levy of $40k (in this example the lowest available stoploss limit is chosen: $147k).

Joining the ACCPP will mean the employer needs to employ a claims administrator to manage the claims and provide the necessary monthly reporting to ACC. A cost of $20k per annum is assumed for this, meaning fixed annual costs of $60k before taking account of the claims. This is below the standard levy by $87k. Any claims costs than $87k will see savings compared to the standard levy.

The flipside of this is if there is one or more major accidents and a significant cost arises, say $250k. In this instance the stop loss would come into play and the employer's claim costs would be limited to chosen amount of $147k. Total ACCPP costs for the year are then $207k after allowing for the levy and administration costs. This is higher than the standard levy by $69k.

Is this then a viable option? Possibly, yes, even with the risk of costs being higher than the standard levy.

Over the long term, the employer will look to achieve cost savings against the standard levy even if this is not the case for each individual year. Importantly the employer will now have the advantages that accrue from the direct management of their own claims.

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, established in 1992, has offices in Auckland and Wellington.

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For further information please contact:

Mark Weaver
mark.weaver@mjw.co.nz

Craig Lough
craig.lough@mjw.co.nz