ACC

Residual Claims Levy

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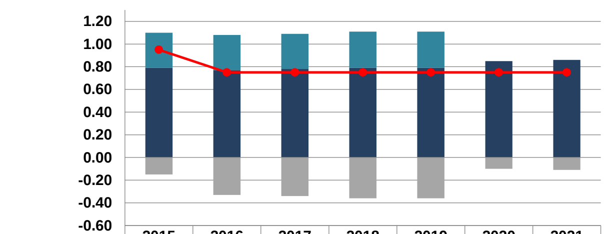
ACC Partnership Programme (ACCPP) employers are being hit hard in the pocket courtesy of the Residual Claims Levy (RCL).

In its 2014 Financial Condition Report ACC indicated that the funding position of the residual portion of the Work Account is such that collection of the RCL could be discontinued earlier than the anticipated date in 2019. However any change requires amended legislation, which to date has not been forthcoming.

Instead ACC is left managing the level of surplus in the Work Account by retaining the RCL at the "locked in" rate and then fully offsetting it through a negative funding adjustment. Ordinarily the funding adjustment exists to smooth fluctuations in claims and investments experience, ensuring that the Work Account remains within its target funding bands. Here it is being used to effectively reverse the RCL.

The problem with this approach is that the funding adjustment is not benefiting all Residual Claims Levy payers – accredited employers are effectively subsidising the levies paid by standard employers.

Standard employers pay an aggregate Work levy comprising a levy for the current year's claims, the RCL and the funding adjustment; whereas accredited employers pay only the RCL portion and receive no discount due to the funding adjustment. This is illustrated in the chart below (based on information in the 2015/16 ACC Work Account Pricing Report), which shows the components of the projected aggregate Work levy.



	2015	2016	2017	2018	2019	2020	2021
RCL	0.31	0.31	0.31	0.32	0.32	0.00	0.00
Funding adj.	-0.15	-0.33	-0.34	-0.36	-0.36	-0.10	-0.11
Current levy	0.79	0.77	0.78	0.79	0.79	0.85	0.86
Agg levy	0.95	0.75	0.75	0.75	0.75	0.75	0.75

The projected RCL is more than offset by the projected funding adjustment through to 2019 - meaning the RCL could cease (along with the large negative funding adjustment), which would save some accredited employers millions of dollars. A consequence for standard employers is that the aggregate Work levy would incur a small increase.

A further complicating issue is that the $0.90 2015/16 levy is artificially high due to the Government's rejection of ACC's reduction to $0.75.

The problem for accredited employers

The current situation means the financial incentives for employers joining the ACCPP have effectively been removed. Similarly, employers are not receiving the full value of any WSD and WSMP discounts, as these are applied to the current levy less funding adjustment. For many employers the standard levy is now cheaper than the total costs of being in the ACCPP. ACC admitted the problem in its latest FCR stating that "the result seems unsatisfactory".

Ministerial review

In 2014 the previous Minister for ACC indicated that a review of the RCL was forthcoming, saying:

"The Residual Amount was estimated in 2009. Since then rehabilitation performance has improved, along with ACC's strong financial performance. A review of the residual levy, in light of its role being effectively completed, is expected."

It was understood that, following this review, the RCL would cease effective 1 April 2016. It is hoped that the new Minister will treat this important issue as a priority - it was included in ACC's advice to the incoming Government.

In the meantime

While it might appear cheaper for employers to exit the ACCPP entirely, this is not an option for many employers who are committed to, and want to retain management of their own claims. FSCP employers need to assess whether, in the current situation, switching to the PDP is viable. And accredited employers need to continue to lobby Government for the legislative changes needed to discontinue the RCL early.

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