

Australian ACC Market

April 2007

1. Introduction

Every second year, the Institute of Actuaries of Australia organises a conference on Accident Compensation. This year the conference was held in Melbourne from 1 April to 4 April.

The conference offers anyone interested in the New Zealand market the opportunity to consider how the New Zealand ACC scheme operates in comparison with viable alternative schemes. It includes presentations from ACC personnel on the New Zealand scheme, although the level of interest in New Zealand at the conference was clearly low.

Australian interest in the New Zealand accident compensation environment was arguably highest in the run up to and immediately after the privatisation of the New Zealand employers account in 1999.

2. A review of the Australian system

The Australian system has two compulsory components, a Workers' Compensation scheme and a Compulsory Third Party car insurance scheme.

In contrast the New Zealand system has compulsory 24 hour cover for all New Zealanders. The difference is somewhat illusionary for non-earners, as in both countries the immediate health costs are paid for.

Australia has a state-based system, with each state providing different statutory benefits. The way the benefits are provided varies through a state-run organisation, to a private insurer for both the levy setting and the claims management services, and to a system where the levies are set by the state but the claims management is provided by a private provider.

Some brief details on average levy rates and funding positions are shown in the table below.

Jurisdiction	Average Levy Rate per \$100	Funding Ratio %
New Zealand	1.21	65
South Australia	3.00	65
New South Wales	2.06	90
Western Australia	2.13	125
Victoria	1.62	119
Queensland	1.20	137

Full details on each Australian scheme can be found at the following website:

www.hwca.org.au/documents/comparison2005.pdf

A summary of each state's scheme and other national schemes is included in the Appendix, which is reproduced with acknowledgement to Julie Evans at je.consulting@bigpond.com.

3. Current Australian scheme issues

The five current major issues for the Workers' Compensation scheme are discussed below.

Funding positions have improved: With one exception the funding position of all the schemes has improved. A number are now in a surplus position, including the largest NSW scheme which over the last 5 years has had an A\$5 billion turnaround in its finances. The drivers for this improvement are:

- The benefit reforms in the late 1999's and early 2000's. These reduced benefits and moved payments away from lump sums to weekly payments. The reforms included tort reform which either reduced the amounts available or limited access to common law benefits.
- The change in the liability assumptions by the actuaries. While the impact of the reforms took some time to become evident, this is a factor which has seen a big improvement in the last few years, once it become clear to the actuaries that the claims payment pattern and incidence was reducing.
- The strong investment returns of the schemes.
- Improvements in the claims management practices. These have included changes to the actual claims management and also changes in how the external parties employed are remunerated.
- The fall in the injury rates, albeit that the cost of the individual claims have increased.

Fall in levy rates: In all but one case, the levy rates have been falling due to the good experience summarised above.

Self insurers are being squeezed: Each state offers the larger employers the option to self-insure. Over the past two years however, state authorities have been looking more closely at how they operate and increasing the compliance requirements. The compounding problem for the larger employers is that in the main they will operate across the states and so are subject to different rules for each jurisdiction.

Growth of the Commonwealth scheme: The Federal Government operates its own scheme across Australia, ComCare and the outcome of a recent Court case means that employers either compete against a Government body or against an organisation which used to be Government-owned. This has generated interest in the scheme as an option from employers operating inter-state, particularly as the scheme allows them to self insure. Employers such as the banks have moved to take this option, CBA being notable as it was once Government owned. Telstra is also considering the option. While the states have major concerns with this change, for the employers it has some clear advantages, most obviously a one benefit system. The value and cost of the scheme is seen as being similar to the average state scheme.

Different benefit structures: While it is possible to rationalise the different benefits for each state, the lack of a one benefit system is a problem. Any changes are tied up in the continuing debate of state versus Federal Government. However a review and harmonisation of some procedures to simplify the processing of claims and levy payments had been lead by NSW and Victoria.

Possible move to privatisation: With the emergence of surpluses, privatisation in the major states is a possibility, although not high on the policy agenda. In NSW this was last discussed in 2001 but one reason for not proceeding was that there was no guarantee the levy rates would not rise.

4. New Zealand issues

Funding of occupational diseases: The levy round in Autumn 2006 was dominated by concerns over hearing loss claims, both with the increasing cost of such claims and with the allocation of the major part of the cost of the claims to the Residual Claims Account. A major issue is the current state of the legislation, which is looking by 2014 to fund all claims for which there was some exposure prior to 1999.

Comments were made at the conference which implied that NSW had a similar increase in hearing loss claims, to which the response was to question and review the eligibility of such claims.

Future of the partnership programme: This programme is important to the larger employers, but as in Australia it has come under some criticism in the last 3 years.

Rising claims costs: While the incidence rates are down, the cost of individual accidents is up. There have also been concerns regarding stress claims.

Levy rates: The underlying employer rate is due to rise and is only able to be held down by the existing scheme surpluses.

Funding of residual claims: Following from the comments above, there are some concerns that the current funding basis may be changed. The advantage of the current (fund by 2014) basis, is that this may focus continuing attention on the claims management of the pre-1999 claims. How to fund occupational disease claims could perhaps be considered separately. Most countries seem to have set up separate occupational disease funds which in some cases are funded separately.

5. Comment on the scheme differences

Levy rates and benefit levels: The levy rates in New Zealand are lower and the benefits are slightly lower. As an illustration of this, in some Australian states the weekly benefit is 100% from day 1, compared with the New Zealand 80% level. However, there is a high level of acceptance of the New Zealand benefits and no great impetus to change.

Claims management: While a scheme needs to have the right benefit levels with the right incentives to assist employees to return to work, the biggest driver for reducing costs will be the claims management process.

Some Australian states with a publicly-funded scheme (as in New Zealand), have chosen to outsource the claims management role. This is seen as a major component of the success they have had in reducing their costs and levy rates. In contrast, the New Zealand system has chosen to combine the levy setting and management scheme functions with the direct claims management functions.

Funding levels: A conference participant, on the basis of the information provided, could have been left with the impression that the New Zealand scheme was badly under funded. This is not the case as the figures shown at the conference simply reflected the historic decision to have the New Zealand under-funding position as at 1999 being managed on a level levy rate basis over the period to 2014.

Uniform benefits: The New Zealand scheme with just one set of benefits is a big plus for New Zealand.

Universal coverage: The major difference between the two countries is the difference in the statutory benefits provided. The New Zealand scheme provides universal 24 hour coverage which has advantages to employees, self employed, non-earners and motorists.

6. Future changes to each scheme

In Australia, the issue for the larger employers is the need to provide uniform benefits to all their employees. They hope to achieve this through the Commonwealth scheme, which may in turn drive changes in the management and benefit levels of the State schemes.

In New Zealand, the biggest change may occur should National be elected and decide to make major revisions to ACC. This could involve either a rerun of the 1999/2000 privatisation process, possibly affecting more than just the employer account, or else a major review of how the benefits are delivered to claimants.

Such a review could look at the Australian processes, which involve publicly managed schemes with all the claims management functions outsourced.

It is fair to say that the normal response of a New Zealander attending an Australian conference is to hold the view that whatever is done in New Zealand is better than Australia. While Australia may have some schemes with many faults, they also have within their system examples which are worthy of closer attention and which may have some application for New Zealand.

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 Wellington and Auckland.

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Appendix – Summary of the main features of the Australian schemes

Jurisdiction	No-fault	Public / Private
New South Wales	Yes	Limited common law - public scheme (private sector involved as claims managers, but do not carry the risk)
Victoria	Yes	Limited common law - public scheme (private sector involved as claims managers, but do not carry the risk)
South Australia	Yes	No common law - public scheme (outsource claims management to single private sector provider)
Western Australia	Yes	Limited common law - private sector
Queensland	Yes	Pretty open access to common law - public scheme
Tasmania	Yes	Limited common law - private sector
Northern Territory	Yes	No common law - private sector
Australian Capital Territory	Yes	Reasonably open access to common law - private sector
Comcare	Yes	(Almost) no common law access - public scheme
Seacare	Yes	(Almost) no common law access - private sector

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