

Summary

The Residual Claims Levy (RCL) ceases with effect from 1 April 2016 and the impact is to transform the financial attraction of the Accredited Employers Programme (AEP).

This newsletter focuses on illustrating the financial options for employers. Now is the time for all large and medium sized employers to compare their ACC options for the 2017 cover year.

Introduction

ACC consulted on new levy rates last September and the Government broadly confirmed the proposed rates in December. Below we look at the Work Account. In the Appendix we provide information on the Earners and Motor Account levies.

Work Account

The table below shows the change in the levy rates for the 2017 cover year.

Work Account (\$ per \$100 liable earnings)

	Current	Residual	Combined
2015/16	\$0.59	\$0.31	\$0.90
2016/17	\$0.80	\$0.00	\$0.80
Change	36%	-100%	-11%

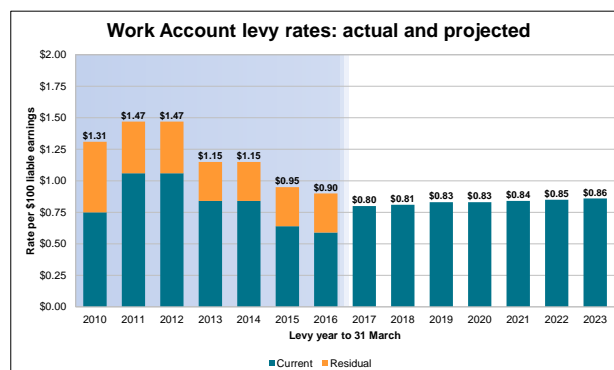
- The combined rate for an employer has decreased from \$0.90 to \$0.80 per \$100 LE.
- However the rate for the current year has increased on average by 36%.

The table below shows the different cost components of the levy.

Work Account	2015/16 Actual	2016/17 Final	Increase/ Decrease
Cost of claims	\$0.63	\$0.64	2%
Scheme costs	\$0.27	\$0.27	0%
Funding adj.	(\$0.31)	(\$0.11)	-65%
Total	\$0.59	\$0.80	36%

- A 2% increase in claim costs (63c to 64c) with no change in Scheme costs (27c).
- A significant reduction in the funding adjustment due to the ending of the RCL.
- The overall increase in the levy from \$0.59 to \$0.80 is apparent.

The table below looks at actual and projected rates.



The impact of ending of the RCL is apparent for the 2017 cover year. Looking back we see the RCL dropped from \$0.41 to \$0.31 effective for the 2013 cover year. The levy rate for just the current year claims reached a maximum of \$1.06 for the 2011 and 2012 years and a low of \$0.59 for the 2016 year.

Residual levy

The RCL has ceased 3 years early due to the passage of legislation late in 2015. Under the previous legislation the RCL was payable to 2019. ACC itself pushed for the changes knowing that the residual claims were all but provided for and looked for flexibility on the end date.

The NZ Association of Accredited Employers (NZAAE), the industry lobby group was heavily active in making submissions on the RCL and the proposed legislation and this included a meeting with the Minister Nicki Kaye as well as fronting up to the Select Committee on the bill back in August 2015. During the on-going discussions there was every chance that the end of the levy could have been put back a year till March 2017. But fortunately the Minister understood and accepted the arguments for an end date of 31 March 2016.

The dollar saving to Accredited Employers is meaningful with a reasonable number of employers with an annual levy bill in excess of \$1 million. In total the RCL was worth an estimated \$320 million for the year ending June 2015.

Revisiting the AEP option

The average 36% increase in the work levy has transformed the finances of the AEP for employers.

For a couple of years the financial case for the AEP was under pressure. Below we look at the relative costs for an employer paying the standard levy v-a-v joining either the Full Self Cover Plan (FSCP) or the Partnership Discount Plan (PDP).

The claims figures and insurance options chosen are in regard to a typical employer with a base standard levy payable of \$1,000,000.

Note We would be pleased to talk to more of the details behind the illustrations if requested.

Example

The employer has a medium level of stop loss and a large High Claims Cost Cover (HCCC), i.e. the employer is prepared to take some financial risk.

2016/17 ACC Costs	FSCP \$000s	PDP (2yr) \$000s	Std levy \$000s
ACC levy net WSMP	92	453	1,000
Claim costs	567	489	-
TPA costs	148	148	-
Total costs	807	1,090	1,000

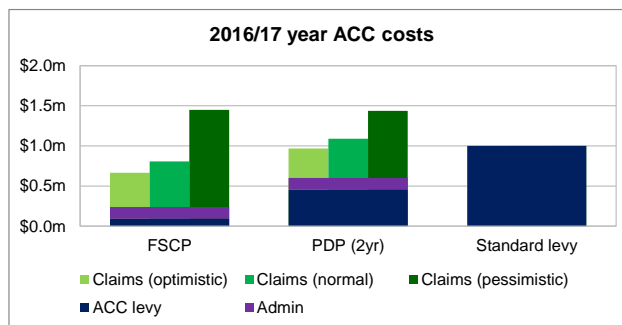
The table illustrates the ACC levy paid under each levy option and projected claims costs for the FSCP and PDP options with most of the expected cost of claims occurring in years 1 and 2. We see:

- The FSCP is attractive.
- The PDP is less attractive.

Below we illustrate optimistic and pessimistic claims outcomes.

	FSCP \$000s	PDP (2yr) \$000s	Standard levy \$000s
Optimistic scenario			
ACC levy net WSMP	92	453	1,000
Claims costs	425	367	-
Admin	148	148	-
Total costs	665	968	1,000
Total costs of Std Levy	+335	+32	-
Pessimistic scenario			
ACC levy net WSMP	92	453	1,000
Claims costs	1,209	836	-
Admin	148	148	-
Total costs	1,448	1,438	1,000
Total costs cf FSCP	-	(11)	(448)

The optimistic costs are 75% of the normal costs and under the pessimistic scenario the employer experiences one large claim of \$500k.



The table and chart show:

- As expected under a pessimistic scenario the FSCP costs are higher than the standard levy.
- For an optimistic scenario the attractions of the FSCP and PDP improve.

Summing up

Those employers, who, in the last couple of years were seriously questioning the financial viability of their AEP membership, can now relax. Those who have put off the case to join the AEP or alternatively those who decided to exit can now revisit the option which enables employers to provide the complete rehabilitation experience for their employees.

The value of such an approach is perhaps even more valid with the new Health and Safety legislation imposing more obligations on employers. Membership of the AEP can then deliver some financial relief from these important legislative obligations.

Partnership Programme rate details

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

ACCPP fees & discounts as % of standard levy

ACCPP fees & discounts as % of standard levy	Current 2015/16	Final 2016/17
Admin fee	4.3%	2.7%
Primary health costs	1.2%	0.8%
Bulk funded health costs	4.3%	3.6%
PDP discounts 1 year	54.4%	51.3%
PDP discounts 2 year	59.6%	59.0%

There have been no changes to the structure of the AEP with similar dollar amounts payable in 2017.

Brian Blackman

Many people in the ACC space will be aware of the recent death of Brian Blackman CEO and founder of WellNZ. Brian was a great champion and advocate for the AEP. He was also active in the NZAAE and a member of the working party involved in the discussions to see the RCL cease prior to the planned 2019 date. Like many he was more than pleased to see the levy ended effective this March.



APPENDIX

Earners Account

Earners' Account (\$ per \$100 LE excl GST)

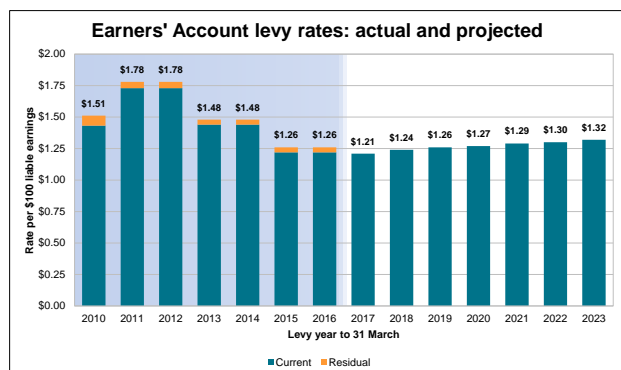
	Current	Residual	Combined
2015/16	\$1.22	\$0.04	\$1.26
2016/17	\$1.21	\$0.00	\$1.21
Change	-1%	-100%	-4%

- The ending of the residual levy at 4 cents has little impact on the rate payable for 2016/17.
- Overall there is a small 4% decrease in the rate.

The tables below show the different cost components of the levy and the actual and projected levy rates.

Earners' Account	2015/16 Actual	2016/17 Final	Increase/Decrease
Cost of claims	\$1.01	\$1.04	3%
Scheme costs	\$0.29	\$0.29	0%
Funding adj.	(\$0.08)	(\$0.12)	50%
Total	\$1.22	\$1.21	-1%

- The projected cost of claims for 2016/17 is up 3%.
- The larger funding adjustment has resulted in the overall cost reduction.



- The Earners Levy reached \$1.78 in the 2011 and 2012 years.
- Going forward the levy increases gradually.

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. The firm is an alliance partner of Willis Towers Watson, a leading global services company with business areas covering Corporate risk and broking, Exchange solutions, Human capital and benefits, Investment risk and reinsurance. Willis Towers Watson has 39,000 associates around the world and is located on the web at willistowerswatson.com.

Motor Account

Motor Account (\$ per vehicle excl GST)

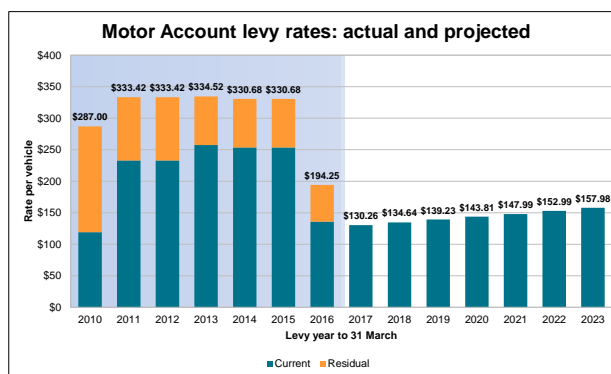
	Current	Residual	Combined
2015/16	\$136	\$58	\$194
2016/17	\$130	\$0	\$130
Change	-4%	-100%	-33%

- The combined rate has decreased 33% to \$130.

The tables below show the different cost components of the levy and the actual and projected levy rates.

Motor Account	2015/16 Actual	2016/17 Final	Increase/Decrease
Cost of claims	\$128.55	\$132.88	3%
Scheme costs	\$16.48	\$17.07	4%
Funding adj.	(\$9.08)	(\$19.69)	117%
Total	\$135.95	\$130.26	-4%

- The increase in the cost of claims has been more than offset by the increase in the funding adjustment.



- The movement in the levy rate has been substantial over the period shown. The maximum rate was \$335.52 in 2013.
- The rate for the 2016/17 year at \$130.26 is a major reduction for motorists.
- Going forward the levy increases gradually.

For further information please contact:

Jeremy Holmes 09 300 7318
jeremy.holmes@mjlw.co.nz

Mark Weaver 09 300 7156
mark.weaver@mjlw.co.nz

Although every care has been taken in the preparation of this newsletter, the information should not be used or relied upon as a basis for formulating business decisions or as a substitute for specific professional advice. The contents of this newsletter may be reproduced, provided Melville Jessup Weaver is acknowledged as the source.

