ACC

Consultation levy rates for 2017-19

September 2016

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Introduction

In this newsletter we outline the consultative levy rates for the 2017-19 years along with our comments on the content of the Consultation Documents. The consultation period closes on October 19th.

Key features of the rates include:

- Move to a biennial setting of levies
- Reductions in the average levy rates for the Work Account and Motor Account.

While the claims experience over the last year has been deteriorating, this has been countered by favourable investment returns.

A feature of the results this year is the strong overall funding position of each ACC account.

Summary

The proposed rates for the three accounts are:

$ per $100 liable earnings

	Work	Earners'	Motor
2016/17	$0.80	$1.21	$130
2017-19	$0.72	$1.25	$114
Change	-10%	3%	-13%

Accredited employers

There is a slight decrease in the administration fee from 2.7% to 2.6%, while the fees for Primary Health Costs and Bulk funded health costs have increased from 4.4% to 5.1% of the standard levy. The increase is partially offset by the fall in the standard work levy.

Work Account

The table below summarises the change in the components making up the levy.

Work Account
Change in levy rate & breakdown of costs

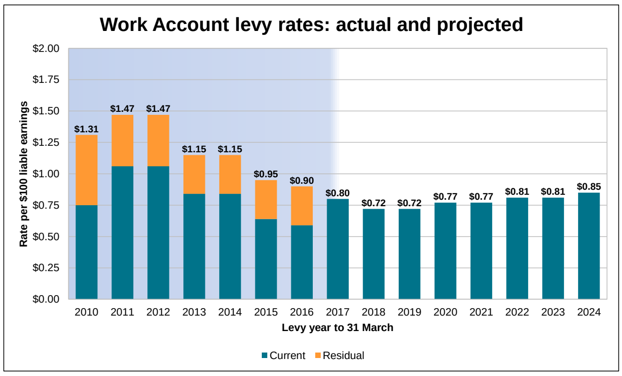
Work Account	2016/17 Actual	2017-19 Proposed	Increase/ Decrease
Cost of claims	$0.66	$0.67	2%
Scheme costs	$0.25	$0.26	4%
Funding adj.	($0.11)	($0.21)	91%
Total	$0.80	$0.72	-10%

The table shows:

- 2% increase in claim costs (66c to 67c)
- 4% increase in scheme costs (25c to 26c)
- A greater negative funding adjustment required to achieve the targeted funding level

To calculate the cost of claims, ACC makes assumptions regarding future claims frequency and severity. These assumptions are largely unchanged compared to last year.

Average levy rates 2010 to 2024



The residual levy is shown for the period to 2016 and the impact of the residual levy on the total levy is apparent, as is the variability of the standard levy over the past. It was of great relief to all accredited employers when the residual levy finally ceased.

Going forward, the levy is projected to increase slowly after 2019.

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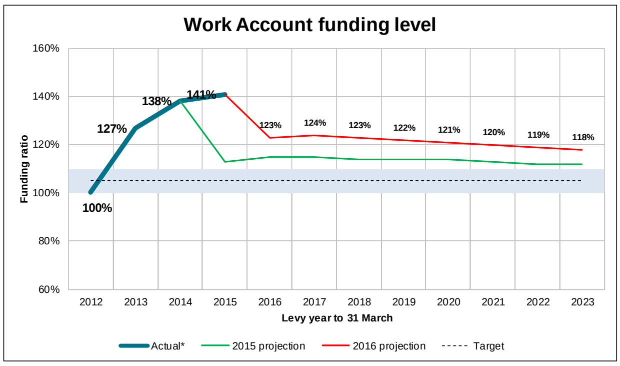
Funding path to target of 105%



*Actual funding ratios are based on 30 June financial year

The chart above illustrates how the funding position is currently sitting well above the solvency target, necessitating a funding adjustment to reduce levies and return the Account to the target band over the long term. The actual solvency ratios have crystallised at higher levels than forecast. The consultation documents attribute this significant improvement to favourable investment performance. The 105% funding target has been set by Government.

Whilst not shown, the cost of the gradual process claims has increased by $626 million as included in the 2015 annual report.

Experience rating

The current experience rating system is being overhauled with the aim of better incentivising employers to improve their health and safety programs.

WSMP discounts

The WSMP discounts and programme will be discontinued from 1 April 2017 with no new members allowed into the programme. Existing members of this programme are able to continue through to June 2019. ACC is embarking on a three-pronged approach to help employers create healthy and safe workplaces by:

- More closely aligning initiatives designed to stop workplace injuries happening
- Creating new incentives that will encourage businesses to invest in health and safety improvements, and
- Implementing levy-based rewards for businesses that reduce the number and severity off their workplace accidents and support the rehabilitation of their workers.

ACC will be consulting on the new programme.

Earners' Account

The table below summarises the change in the components making up the levy. The rates exclude GST.

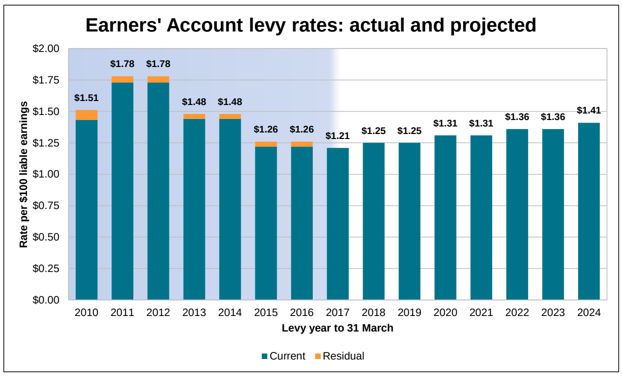
Change in levy rate & breakdown of costs

Earners' Account	2016/17 Actual	2017-19 Proposed	Increase/ Decrease
Cost of claims	$1.07	$1.11	4%
Scheme costs	$0.29	$0.30	3%
Funding adj.	($0.15)	($0.16)	7%
Total	$1.21	$1.25	3%

The table shows:

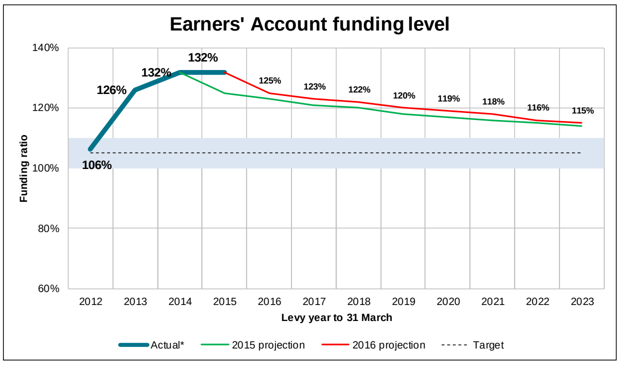
- 4% increase in the cost of the claims ($1.07 to $1.11)
- 3% increase in scheme costs (29c to 30c)
- A small increase in the funding adjustment required to achieve the targeted funding level.

Average levy rates 2010 to 2024



Again we see a fairly high level of volatility in the historical rates with the levy is projected to increase from next year onwards.

Funding path to target of 105%



*Actual funding ratios are based on 30 June financial year

The funding position projected as at 31 March 2015 was 123%, however this improved marginally to 125% as at 31 March 2016.

Motor Account

The table below shows the change in the components making up the levy.

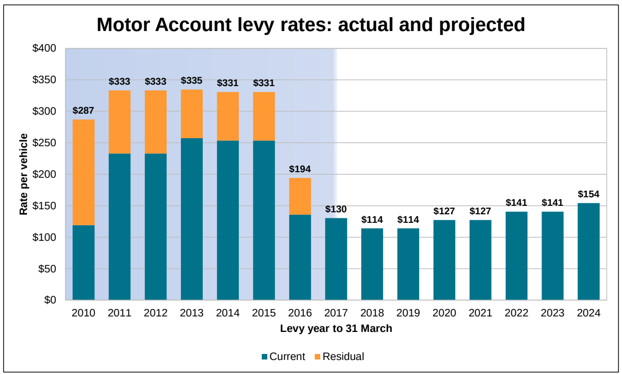
Change in levy rate & breakdown of costs

Motor Account	2016/17 Actual	2017-19 Proposed	Increase/ Decrease
Cost of claims	$131.41	$137.64	5%
Scheme costs	$15.27	$16.44	8%
Funding adj.	($16.42)	($40.14)	144%
Total	$130.26	$113.94	-13%

The table shows:

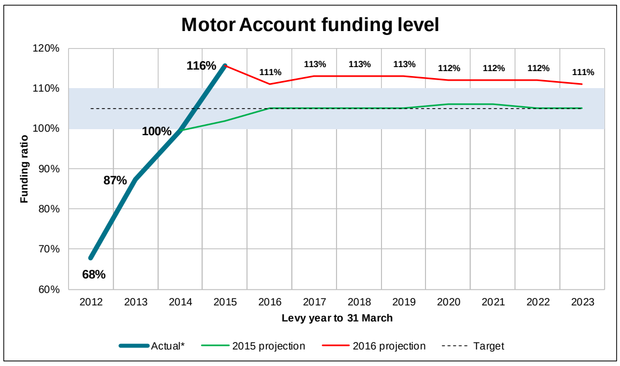
- 5% increase in the cost of the claims ($131.41 to $137.64)
- 8% increase in Scheme costs ($15.27 to $16.44)
- A more than two-fold increase in the funding adjustment required to achieve the targeted funding level.

Average Levy rates 2010 to 2024



With the substantial surplus the levy is projected to fall further in 2018/19 and then commence rising thereafter. The methodology employed always results in future rates increasing gradually.

Funding path to target of 105%



*Actual funding ratios are based on 30 June financial year

The solvency ratio has rapidly improved over recent years, with the Account achieving fully-funded status in 2014/15. The current 2016 position has improved from the 105% estimated last year to 111%. Growth in the volume of claims experienced has been limited to short-term claims, which have a limited impact as these costs represent a small portion of the total liability. Due to the long term nature of most Motor Vehicle claims, changes to inflation assumptions and investment returns have a greater impact on the estimate of future cost than for the other Accounts.

Accredited Employers Programme

Although the levy review process has been shifted to a biennial basis, the AEP will continue to be reviewed and may change annually.

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 2016/17	Final 2017-19
Admin fee		2.7%	2.6%
Primary health costs		0.8%	1.2%
Bulk funded health costs		3.6%	3.9%
PDP discounts	1 year	51.3%	50.0%
	2 year	59.0%	57.1%

There have been no changes to levels of stop loss and High Cost Claims Cover available. The reduction in the rates means that the minimum and maximum levels of cover which are expressed as a % of the expected claim costs have increased slightly. The minimum of 160% of expected claims is now 131.20% of the standard levy and the maximum of 250% of expected claims costs is 205.00% of the standard levy.

ABOUT MELVILLE JESSUP WEAVER

Melville Jessup Weaver is a New Zealand firm of consulting actuaries. The firm was established in 1992 and has offices in Auckland and Wellington. The firm is affiliated to Towers Watson; a global professional services firm that helps organisations around the world optimise performance through effective people, risk and financial management. Towers Watson has offices in 25 countries and the business covers human resources services, reinsurance and Tillinghast.

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