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Self Insurance in the NZ Accident Insurance Market

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1. Summary and conclusions

1.1 Introduction

The New Zealand Accident Insurance Scheme is entering a period which will see significant changes. The Government has stated that there will be tighter rules on benefit entitlements and rolling back of some of the expansion in benefits seen since July 2000. While comprising only 13% of the levy income for the ACC for the 2008/09 year, the Work Account plays a dominant role in the Scheme and within this exists the ACC Partnership Programme (ACCPP), the self insurance option open to employers (the AEP employers).

This paper:

- Reviews and assesses the current ACCPP
- Identifies areas where we see opportunities to improve the ACCPP
- Explores options to implement possible changes.

It is not intended that the paper discuss the changes that may come about as a consequence of the current Government review.

1.2 Sources of data

The information in this paper is taken from a number of sources including publically available ACC reports. It is important to note here how over the years ACC has always been willing to discuss issues and provide information on request.

The input we have received from the Third Party Administrators (TPA's), who administer the claims for the employers, and the discussions we have had with employers have been valuable. Thanks to Janet Lockett who completed the peer reviewing of this paper, her input was invaluable.

1.3 Main features of the ACCPP

These are:

- The ACCPP covers 22% of employees
- An employer who selects the Full Self Cover Plan assumes 100% liability, limited only by the stop loss insurance
- The limited claims management period - up to a maximum of 4 years after the cover period
- The very defined and structured nature of the Scheme
- The significant role played by the TPA's
- The important role played by auditors.

1.4 Assessing the Scheme

The assessment is:

- It is important to provide employers with incentives to improve their health and safety, reduce accidents, and improve rehabilitation of injured workers. Overall the ACCPP achieves this.
- However, there are some important areas where changes could be made to improve outcomes and commitment from employers.

- The insurance available to AEP employers is important and the current options while extensive are also limited. There is some suggestion that the premium rates are too high.
- The information currently provided by ACC to employers on their performance is too limited.
- We are not convinced that some employers fully appreciate the liabilities involved with the Scheme.
- In some cases the results for employers are not as good as might be expected.
- There is no accountability of the ACCPP finances back to the employers.

1.5 Proposed changes

The changes proposed comprise:

- Open up the insurance options and involve insurers
- Impose more financial disciplines on the employers and thereby reduce any residual financial cost to ACC if an employer is unable to meet their ACC liability costs.
- Amend the claims management period option to allow an unlimited period but also allow employers the option to hand back all their claims in respect of a cover period whenever they chose
- Allow employers to manage non work and motor account claims
- Encourage some smaller employers to join
- Regulate the TPA's
- ACC to expand the statistics it supplies to both AEP employers and standard employers
- Require ACC to account for the finances of the Scheme separately to provide transparency of its finances.

1.6 Update of paper

This paper was completed in mid October and co incided with:

- The announcement of the proposed new levy rates for the year beginning April 2010
- New legislation introduced into the House to make a number of substantial changes to the Scheme. These are the subject of the Injury, Prevention, Rehabilitation, and Compensation Amendment Bill (the Amendment Bill)
- The expansion of the terms of reference of the Government ACC Stocktake to include whether or not parts of the Scheme should be privatised.

Rather than attempt to re write certain sections of the paper we have chosen instead to just state the new proposals including comment on them. Where it was straightforward we have updated a number of tables which would otherwise now be out of date.

A summary of the proposed Scheme amendments are included in Appendix F.

2. Overview of the New Zealand Accident Insurance Scheme

2.1 Introduction

The paper commences with information on the basic New Zealand Accident Insurance scheme and the ACCPP.

The Scheme is governed by the Injury Prevention, Rehabilitation and Compensation Act 2001 (the Act). The Ministry responsible for managing the Accident and Insurance Corporation (ACC) is the Department of Labour. ACC is the Crown entity which provides the cover under the Act.

2.2 Woodhouse principles

The history of the current scheme goes back to the Woodhouse Report in 1967. While the brief for the report was to review the existing workers compensation scheme, Woodhouse chose instead to propose an all encompassing scheme providing 24 hour no fault coverage and a standardised set of benefits.

The Scheme is based around the Woodhouse principles which are:

- Community responsibility
- Comprehensive entitlement
- Complete rehabilitation
- Real compensation
- Administrative efficiency.

More detail on the principles is included in Appendix A.

The principles are encompassed in the benefits which can be summarised as follows:

- An income of 80% of pre accident earnings subject to a dollar maximum. Details on the maximum levels are shown in Appendix B. The benefit is paid to age 65 or 2 years after the accident whichever date is the later.
- Payment of all medical rehabilitation costs.
- Payment of social rehabilitation costs.

2.3 Segregation of the accounts

There are 6 accounts from which benefits are paid and to which levies are collected. These are:

- Work Account Covering all those in employment including the self employed. Until March 2007 there was a separate account for the self employed. The rates are in the process of being merged and from 2010/11 one rate will apply.
- Earners Account. Covering workers for accidents incurred when not at work.
- Motor Vehicle Account Covering bodily injuries for people injured in motor vehicle accidents.
- Non Earners Account Covering those not in the work force by meeting their medical and rehabilitation costs.
- Residual Claims Account Covering the cost of pre 1999 workplace injuries and pre 1992 non work injuries. It is to be fully funded by 2014, although this date is expected to be changed to 2019.

- Treatment Injury Account This covers the cost of personal injuries from medical treatment.

The 6 accounts were established as part of the reforms in the 1990's. The culmination of the reforms was the privatisation of the then Employers Account with the self employed having the option to seek a private insurer, from July 1999 to June 2000.

A major driver for the separation of the accounts was the need to properly account for the cost of the benefits provided. Without this information it would not be possible to address cost pressures in particular areas. At the current time this is very relevant with the Earners Account experiencing large cost increases.

Update The Amendment Bill proposes to extend the funding date for the pre 1999 injuries to March 2019.

2.4 Current levy rates 2009/10 year

The table below summarises the average levies payable for the 2009/10 year.

Account	Levy rates 2009/10
Work Average	$0.75 per $100 liable earnings
Earners	$1.70 per $100 liable earnings
Residual Claims Average	$0.56 per $100 liable earnings
Motor Vehicle	
Licensing Fee	$168
Petrol Levy	9.9c / litre

Update The table below sets out the rates proposed for the 2010/11 year. There are two sets of rates to allow for the proposed change in the funding date to 2019.

Work Account levy rates ($ per $100 liable earnings)

	Current	Residual	Combined
2009/10 Actual	0.75	0.56	1.31
2010/11 Proposed[1]	1.18	0.71	1.89
Increase	57%	27%	44%
2010/11 Proposed[2]	1.11	0.36	1.47
Increase	48%	-36%	12%

Earners' Account levy rates ($ per $100 liable earnings)

	Current	Residual	Combined
2009/10 Actual	1.61	0.09	1.70
2010/11 Proposed[1]	2.60	0.20	2.80
Increase	62%	120%	65%
2010/11 Proposed[2]	n.a	n.a	2.45
Increase			44%

Motor Account levy rates ($ per vehicle)

	Current	Residual	Combined
2009/10 Actual	$119	$168	$287
2010/11 Proposed[1]	$205	$213	$417
Increase	72%	27%	45%
2010/11 Proposed[2]	n.a	n.a	$317
Increase			11%

1 Based on 2014 fully funded deadline.
2 Based on 2019 fully funded deadline.

The changes are substantial.

2.5 Separate Health and Safety Agency

The responsibility for health and safety in the workplace lies with OSH, which works out of the Department of Labour. It completes audits, promotes health and safety initiatives and investigates accidents. At the same time, the Act requires ACC to promote injury prevention. The estimated expenditure of OSH on health and safety was $47 million for the 2007 year. ACC injury prevention costs for the 2008 year were $39.82 million, down from the 2007 figure of $40.01 million. In 2002 the ACC expenditure was $18.54 million.

There is possibly scope for some rationalisation in the roles, although the health and safety role is separate to injury prevention. Overall there is a sense that New Zealand could spend more on injury prevention.

2.6 Stocktake of ACC Accounts

ACC is going through a period of major change following the election of the new National Government. The Government has set up a stocktake to provide information on which to base future decisions to improve the efficiency and affordability of the Scheme. The work involved is likely to include:

- Assessing the performance of each of the ACC accounts. This will include such matters as:
  - Determining whether there are any cross subsidies between the accounts
  - Funding options
  - Identifying the cost drivers and strategies to address
  - The risks involved in each account, who bears them and options for managing them
- Reviewing the performance of the monitoring agency, namely the Department of Labour
- Assessment of current employer programmes and incentives to encourage more workplace safety, whether the employers could manage and pay for non work accidents to promote rehabilitation. Reviewing the ACCPP would form part of this work stream.
- Review of the current investment portfolio
- Review of the key changes in legislation over time and their impact on claimant entitlement.

Update The Stocktake will now include a review of whether parts of the Scheme should be privatised.

3. Overview of the Self Insurance option

3.1 Introduction

The history of the ACCPP goes back to the initiatives in the 1990's to introduce experience rating for the larger employers. (We refer to the employers in the ACCPP as Accredited Employers (AEP employers)). The current self insurance scheme has been in place since July 2000 when the insurance of workplace accidents returned to ACC after the privatisation year. The Scheme has changed very little since then. Some basic numbers on the scheme are:

- The number of AEP employers has dropped from 182 to currently 136 but there has been only a small drop in number of employees covered. Much of the drop has been due to the amalgamation of employers. There are 2 versions of the scheme, see section 4.8 below. These are the Full Self Cover Plan (FSCP) and the Partnership Discount Plan (PDP):
  - Number in FSCP 97
  - Number in PDP 39
- Workers covered 22%
- The estimated cost of claims in the ACCPP for the 2010/11 year is around $150 million.

3.2 Why the ACCPP is so important

The ACCPP is about more than just self insurance. How the self insurance scheme is set up potentially impacts on the rest of the ACC Scheme. It is a question of using the resources and energies of the large employers to set high standards that the rest of the market is motivated to follow.

It is hard to argue against the proposition that the employer is in the best position to rehabilitate an injured worker. They have some financial incentive to achieve a satisfactory return to work by their employee. Most observers would agree that, in most cases, assisting an injured worker to get back into their workplace as soon as possible to do some form of work is better than the alternative of having them at home while looking to get better. The best example is putting an employee on light duties to speed their recovery. From the employer perspective, having the employee on light duties will limit the need to employ another temporary person to take up the work load of the injured worker. While some might argue that the extent to which this can be done in practice will vary with the size of an organisation, it is also possible in a small workplace.

At the same time the regime needs to protect injured workers from an employer cutting corners when rehabilitating a worker and /or not recognising an accident when it is the case.

Achieving lower accident costs incentivises the employer to invest in good health and safety practices in the work place.

As this paper shows, the statistics tend to confirm that most participating employers benefit from being in the ACCPP. Once in the programme, most employers find the prospect of handing over the future management of their employee claims to ACC difficult to contemplate, but at the same time, if the sums suggest this is the best option, they will do it. However, whether an employer is in or out of the programme is a financial decision.

3.3 Obligations of ACC and an accredited employer

The prime obligation of an AEP employer is to perform the functions and duties and exercise the powers of ACC as if ACC was itself managing the claim. There are some limitations on the employers' powers. For example, in regard to a claimant who has sought a review of a decision, the employer cannot appeal an adverse outcome of a cover decision of the review - this is for ACC to decide. An employer can appeal a benefit entitlement decision.

While the TPA's play a major role, the responsibility for all decisions lie with the employer and not the TPA.

3.4 Criteria for joining

To join the ACCPP an employer must:

- Demonstrate long-term financial stability and the ability to meet the cost of work-related injuries
- Have active workplace safety systems and processes in place
- Have active injury management procedures in place, including claims administration and rehabilitation support
- Demonstrate the involvement of employees and their representatives in workplace safety
- Meet the ACCPP audit standards for workplace safety and injury management and be able to demonstrate a commitment to injury prevention.

ACC states that the ACCPP is more suitable for large employers whose levies exceed $150,000 per annum.

Update The equivalent level would now be $225,000 plus.

While there is a one page application form, the process involves:

- Satisfactorily completing the ACC audits
- Passing a financial audit.

The financial audit is completed by an outside accounting firm and is to ensure that the employer can meet their financial commitments under the programme. To date we understand that 2 employers have left the ACCPP due to adverse financial circumstances.

3.5 WMSP

Any employer can apply to ACC for a Workplace Management Safety Programme (WMSP) discount. However an employer wanting to join the ACCPP must have a WMSP audit. There are three pass levels as follows with the discount level shown:

- Primary (10%) – the basic level of achievement required for programme entry.
- Secondary (15%) – demonstrating further consolidation of good health and safety practices in the workplace.
- Tertiary (20%) – demonstrating a well-established, continuous improvement framework.

The tertiary level can only be achieved when an employer has a clear history of established systems and processes which function actively in the workplace and at the tertiary level the employer is required to have in place higher operational standards. For example they must have a rehabilitation plan in place within 7 days of an accident being reported. Because of the additional requirements and costs arising, some employers will prefer not to go to the Tertiary level.

The discount arising is applied at each stage when determining the levy payable, except for the administration fee and unallocated primary health costs (PHC).

To illustrate the requirements of the WMSP we have set out the 10 critical elements ACC look to audit for the WMSP in Appendix C.

3.6 Audits

As noted in 4.3, entry into the ACCPP is dependent on passing the ACC audit standards, and thereafter, annual audits are required. An audit is made up of the following phases:

- Viewing all the relevant systems and process documents required by the standard
- Visiting selected sites to view evidence of health and safety systems in practice
- Management and employee focus group interviews and case study interviews to confirm safe systems in action
- Report writing.

3.7 Who manages the claims?

An employer has the choice of employing a third party administrator or managing the claims themselves. The second option will only tend to be taken up by the larger employer although in some cases a smaller employer will do their own day to day claims management and use a TPA to provide them with technical advice.

It is estimated 85% of employers use a TPA.

We estimate the TPA's rank (based on the number of employees covered) as follows:

- WorkAon
- Wellnz
- Catalyst
- CareAdvantage
- Gallagher Bassett.

The market appears to be relatively competitive and there is some movement between the TPA's by employers. ACC owns Catalyst, which, on occasions, is a source of concern of the other TPA's. Four of the TPA's are owned by an insurer or broker or were owned by an insurance broker. They all have an interest in changes being made to the current Accident Insurance marketplace.

3.8 Scheme details and options

There are two insurance scheme options:

- The full self cover option (FSCP) where the employer assumes all the future costs, but with the claims management period limited to a maximum of 4 years
- The limited insurance option (PDP), where the employer has the ability to manage their own claims over either a one or two year period, with the claims handed back at the end of the period and with no future liability from thereon.

An AEP employer pays a premium which covers:

- ACC administration costs, including levy setting costs, injury prevention and health and safety programme costs
- Unallocated primary health costs (PHC), which should be paid by the employer but where ACC is unable to allocate the costs of a claim back to an employer
- Bulk funded public health costs (BHC), which principally cover the cost of accident claims admitted to hospitals

- Insurance (the employer's liability cap). (Optional under the PDP.)
- In the case of the PDP, an amount to cover the estimated cost of claims after they are handed over to ACC.

The employers have expressed concerns with the level of the administration cost charged, which has risen since inception of the Scheme, and the cost of the stop loss insurance.

3.9 The different insurance options

FSCP

Under the FSCP, an AEP employer is required to have stop loss insurance to protect itself from very poor claims experience in a cover period. The employer can select any level between a set minimum and maximum amount. The minimum is set at 160% of the expected claims costs and the maximum at 250% of the expected claims costs. If the limit is breached, including the cost of any hand back claims, the employer's costs are capped at this level and ACC meets all the residual costs.

The most likely way of breaching the stop loss limit is if the employer has either a small number of large claims or one extremely large claim.

For some employers, having just stop loss cover will mean their potential total claims cost could still be higher than they would like. To further limit this potential cost an AEP employer can effect High Cost Claims Cover (HCCC) to limit the cost from any one event, irrespective of the number of claims made for the event. Cover is available for amounts in excess of $250k, $500k, $750k and up to $2.5 million. For this purpose an "event" is a discrete and time-bound incident (excluding gradual process claims) which results in entitlements under the Act for one or more employees.

PDP

Under the PDP option ACC provides the employer with a credit for the expected cost of claims during the claims management period selected. The employer then has the opportunity to bring their costs in below this amount. The credit given by ACC varies according to the risk group/s of the employer. In the 2009/10 year, it is on average worth 51.5% for a 1 year claim management period and 58.5% for a 2 year period. The additional credit for the 2nd year illustrates how the cost of the claims is concentrated in the earlier years.

Update For the proposed 2010/11 year the equivalent discounts are 49.8% and 58.6%.

The statistics show that overall 30% of claims costs will be paid during within the first 12 months after the accident and 55% within 24 months. So under the PDP, all but a few claims are expected to have been dealt with after 24 months, and the number of long term claims left after that time should be minimal.

Accordingly, an employer may choose the PDP option if they want to manage their own claims, are prepared to pay up to a certain fixed cost for this and do not want a large variability in the cost involved.

The requirement that the insurance has to be effected with ACC is a source of concern with employers and in the table below we illustrate the cost of the premiums payable.

The table shows the HCCC premium at 3 different levels and illustrates how the premium for the maximum and minimum stop loss cover varies accordingly.

The case illustrated is for an employer classified as grocery wholesaling with a levy rate for the 2009/10 year of $0.74 per $100 liable earnings and liable earnings of $200 million. The results are taken from the online ACC calculator. The standard levy is $1,258,000. A 15% WMSP discount is assumed.

Insurance cover and costs ($)								
Cover levels								
Stop loss	4,884,000	3,125,760	4,884,000	3,125,760	4,884,000	3,125,760	4,884,000	3,125,760
HCCC	0	0	250,000	250,000	1,000,000	1,000,000	2,500,000	2,500,000
Premiums								
Stoploss	29,558	142,144	166	1,992	1,993	71,072	12,289	122,550
HCCC	0	0	366,652	366,652	82,530	82,530	19,428	19,428
Total	29,558	142,144	366,818	368,644	84,523	153,602	31,717	141,978

Commenting on the results:

- The lower the HCCC the higher the premium eg $366,652 for HCCC of $250,000. At this level the stop loss premium for cover of $4.884 million is only $166
- The HCCC reduces to $19,428 for cover of $2.5 million
- The results can arguably be anomalous as witness where the stop loss cover is $4.884 million and buying HCCC cover of $2.5 million only costs an additional $2,159.

To the employer, the cost of the insurance is substantial. In the case of the example with the minimum stop loss and the $250,000 HCCC, the total cost of joining the ACCPP is $500,364 of which 74% or $368,644 is the cost of the insurance. The alternative of paying the standard levy of $1,258,000 is not that much higher in comparison.

In our experience the employer seldom calls on the ACC insurance cover.

Update The table below compares the insurance rates for 2009/10 with those proposed for 2010/11.

		HCCC Cover		
Premium	**nil**	**$250k**	**$1m**	**$2.5m**
2009/10				
Stoploss	142,144	1,992	71,072	122,550
HCCC	0	366,652	82,530	19,428
Total	142,144	368,644	153,602	141,978
2010/11				
Stoploss	35,490	70,689	28,363	31,127
HCCC	0	165,961	28,363	11,490
Total	35,490	236,650	56,726	42,617
% change	-75%	-36%	-63%	-70%

The rates have reduced substantially.

3.10 Hand back process

At the end of the claims management period any open claims are assessed by ACC as to their future cost and the employer is charged accordingly. This leaves the employer liable for the future costs of all claims which have not been assessed by ACC. The basis for a claim to be assessed by ACC is if a payment has been made at any time within the last 6 months.

Information on the claims handed back in the year ended 31 March 2009 shows that there were slightly less than 150 FSCP claims handed back and around 120 PDP claims. The total claims costs involved totalled $6.3 million, with the largest 12 claims costing $5.3 million. The numbers in 2008 were similar. Once a claim has been assessed, even for a nil cost, the employer's future liability for that claim is nil.

The hand back process involves a high level of input from ACC and we later question whether there are alternatives to the current approach. A further point here is the question of how good in total is ACC with their case estimates and costs charged to employers. It would be informative to employers if ACC accounted for the cost of these claims separately.

3.11 Monthly data sent to ACC

Each month the AEP employer sends claim details through to ACC in an agreed format. The reporting required is extensive and is intended to mirror ACC's own internal reporting. We have found in our work that, on occasions, the data held by ACC in respect of an employer is different to that held by the employer. It would be useful if ACC was able to report back to employers immediately summarising the information they have received and asking for confirmation that this is correct. It is important to have full, comprehensive and correct data on the claims.

3.12 Costs of the Programme and the discounts applying for the PDP

The administration charges and those for the PHC and BHC for the 2009/10 year are shown below. Except for the administration charge the fees are expressed as a % of the standard levy net of WSMP: The administration fee does not include the discount.

Update The rates shown in brackets are those proposed for the 2010/11 year. The reduction follows from the increase in the proposed standard levy rates.

- Administration 4% (2.3%)
- Bulk Health Costs 4% (1.5%)
- Primary Health Costs 1.5% (2.8%)

The bulk health and primary health costs are therefore just reflecting the costs that would otherwise apply if the AEP employer was paying the standard levy.

This is shown further in the table below which gives a full breakdown of the costs for the standard employer and for the PDP as they applied for the 2008/09 year and shows the average discount for the PDP applying.

The table is taken from the ACC Actuarial Pricing Document 2008.

Average ACC Partnership Discount Plan Discounts **Claims Management Period Subsequent to Cover Period**			
Standard Employers		1yr	2yr
Direct Claim Costs	0.71%	0.31%	0.25%
Bulk-Billed Claim Costs	0.03%	0.03%	0.03%
Claims Handling Expense	0.08%	0.03%	0.02%
Administration Expense	0.03%	0.00%	0.00%
Levy Collection Costs	0.03%	0.00%	0.00%
Provision for Doubtful Debts	0.01%	0.01%	0.01%
Reserve Adjustment	-0.24%	-0.06%	-0.03%
Levy Stability Adjustment	0.00%	0.00%	0.00%
Net Average Employer work levy rate	0.65%	0.32%	0.28%
Workplace Safety Management Practices Discount Funding	0.02%	0.02%	0.02%
Employers Average Work Levy Rate	0.67%	0.34%	0.30%
Partnership Discount Plan Discount		50.80%	56.90%

Commenting on the results:

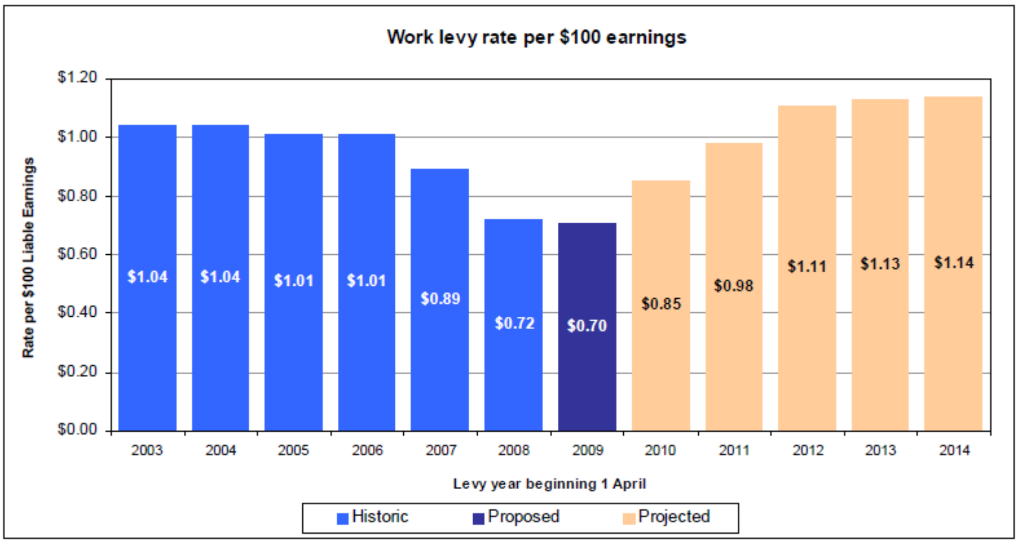
- The cost for the standard employer is $0.67 per $100 liable earnings
- The costs for an employer in the 1 and 2 year PDP are $0.34 and $0.30 respectively
- The discounts that will apply to the PDP are therefore 50.8% and 56.9%.

3.13 Standard levy rates since 2003

While the larger employers in the ACCPP will be clear about belonging to the scheme, this is not the case for the smaller ones who will monitor the attractiveness of the ACCPP compared to the alternative of paying the standard levy. The choice was made more difficult by the reduction in the rates commencing April 2007.

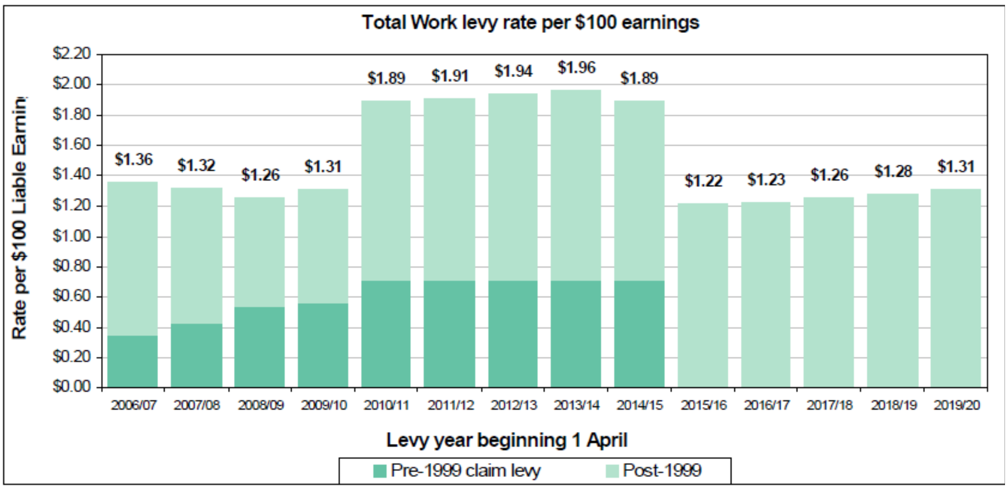
The table below shows the average annual levy rates charged with the reductions from April 2007 for the impact of the surplus in the Work Account clearly shown.

The table is taken the ACC Consultation Document September 2008.



The most interesting aspect of the table is the expected increase in rates through to 2014. This will have a favourable impact on the ACCPP making it more attractive for the smaller employers.

Update The table below is taken from the ACC Consultation Document October 2009 and shows the combined Work rate covering both the current year rate and the levy for the pre 1999 injury claims.



The rates are very different when comparing the two charts.

4. Reviews to date

4.1 Introduction

We have identified two reviews, the 2003 Deloitte Review and the Tripartite Review completed in 2008.

4.2 Deloitte review

This was completed in November 2003. It was commissioned by ACC itself and was supportive of the AEP employers. The primary purpose was to determine how well the ACCPP was operating since its introduction in 2000. It was an operational review and consulted with the stakeholders of the ACCPP. The main issues identified by each stakeholder were:

- ACC — To build accredited employer capacity to make workplaces safer
- AEP employers — Effort required for audits and the application of the audit tool
- Unions — Believe employee participation is unsatisfactory
- TPA's — Frustrated at lack of recognition by ACC of the role TPA's play
- Auditors — Require specific industry knowledge and alignment of the audit tool with OSH requirements
- Employees — Prefer their employer to be involved in injury management rather than ACC.

These views are not dissimilar to those currently expressed. Possibly of most interest is the view expressed by the AEP employers. Exploring why this was the case and whether it is still the case would be useful when considering expanding the role of the employers to manage non work claims.

ACC is a very political subject and the unions are rightly interested in the area. Comments have been made that the unions do not have enough proper experience in ACC to play a full role in the work place - although Ross Wilson, ex CTU President and ex Chair of ACC, was active in improving their resources in this area.

4.3 Tripartite review

The Tripartite review was organised by ACC and was an operational review. The contributing organisations to the review were ACC, NZCTU, Business NZ and the Department of Labour. The Department of Labour had been planning its own review which was expected to review all the aspects of design and operation of the ACCPP. However this was overtaken by the Tripartite review. It contained 4 recommendations and was very much focussed on improving the day to ay operation of the ACCPP.

- **Best practice guidance**
  The report recommended that new entrants to the ACCPP be given more information on what constitutes best practice.
- **Development and training**
  The report recommended more training and providing information on the different legislation under the Health and Safety in Employment Act, the Employment Relations Act and the Injury Prevention, Rehabilitation, and Compensation Act.
- **Data gathering to develop performance benchmarks**
  This recommendation addressed the need for more benchmarks to assist an employer assess their performance.

- **Audit and monitoring practices**
  The fourth recommendation was directed at simplifying the current audit and monitoring practices.

The outcome, while delivering important operational benefits, was seen by many as a lost opportunity for a major review of all the aspects of the ACCPP.

An issue which dominated the review from the AEP employer's perspective was the Residual Claims Account (RCA) levy and gradual process claims which we discuss later.

5. Feedback from TPA's

5.1 Role of the TPA's

The TPA's play an important role managing claims on behalf of the employers and are in a position to form a view on improvements that could be made to the ACCPP.

5.2 Feedback from TPA's

We sent a questionnaire to the 5 TPA's and we received responses from 4. We have summarised the answers below.

- *It's a good programme which encourages good responses from employers to health and safety and rehabilitation.*
- *Too limited insurance options*
- *Dual standards. ACCPP clients required to meet far higher standards than ACC itself.*
- *Should have open ended claims management period.*
- *The audit process should move to a continuous improvement model rather than compliance driven.*
- *Allow employers to manage non-work claims*
- *Separate out the ACC regulatory role*
- *Does not currently allow for innovation by employers.*

Further details are included in Appendix D.

The TPA's, by their role, are generally critical of ACC and their responses need to be judged as such. However they represent the only other major party which has day to day knowledge of the ACCPP and so their views are important. Later, we raise the question of whether they need to be regulated separately. If yes, then there is the question of who would regulate them - ACC itself might not be the appropriate body.

6. ACC reporting to employers

6.1 Report introduced in 2008

In 2008 ACC introduced a new "ACC Partnership Programme Employer Performance Report". The report was effective March 2008 and another is due in late 2009. The report includes some important information for employers although we are not convinced that all employers fully appreciate the content. It includes the following information:

- Basic details on the employer's participation
- A full record of the employers terms in the Plan
- Levies paid and alternative of the standard levy payable
- Breakdown of levy by levy risk group (LRG)
- A breakdown of the liable earnings by LRG ie where the employees are classified into more than one occupation group. This is necessary when making comparisons of the employer's actual experience
- Historical breakdown of number of claims accepted, on hold and declined
- Historical breakdown of claims split between medical and entitlement
- Breakdown of claims by gender, age and ethnicity
- Number of claims by injury site and by diagnosis
- Historical breakdown of claims paid included re opened and hand back compared to ACC PP levy paid and standard levy paid
- Information on the stop loss.
- Breakdown of claims split by weekly compensation, medical claims, social rehabilitation and vocational costs split by cover period and payment year.

Of particular interest are the comparisons of the employer with their LRG, ACC Work Account and all accredited employers. These show:

- Number of claims accepted
- Number weekly compensation claims
- Average cost per claim.

While the comparisons with the total ACC Work Account and all accredited employers results are interesting, the results will reflect the risk profile of the total universe and not of the actual employer. The statistics comparing the employer to the weighted LRG are valuable.

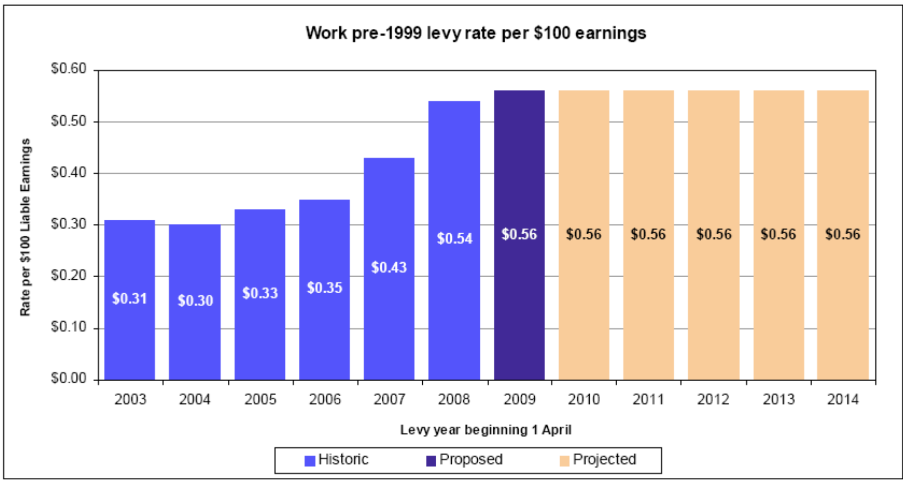
6.2 Expand the reporting

The report could be expanded to provide more benchmark statistics to employers, both in the ACCPP and others. In fact it could be expanded into a general report issued by ACC on the ACCPP. The fact that ACC does not leads one to question why the ACCPP was not accorded a larger place within ACC. It could be argued that when ACC was renationalised in July 2000, it was accepted that the larger employers had to have in place a self insurance programme but that the ACCPP was then largely ignored.

7. Residual Claims Account and gradual process claims

7.1 A problem for employers

The RCA levy has been a source of concern to the AEP employers. While they have, in most instances, successfully managed their current claims, the cost of the RCA levy has been higher than expected. The table below shows a history of the levy since 2003 together with the rates projected in the 2009/10 Consultative Document.



The major increase in the rate commenced in the 2007/08 year when the proposed levy was 54% above the previous year. The increase was due to a shift in the allocation of the greater part of the gradual process claims, primarily those from hearing loss claims, to this account from the Work Account. This followed a change to the Act in 2005 which decided that the existing allocation basis was incorrect. The new allocation was based on the period of exposure to the hazard, and for hearing loss claims most of this period was pre 1999. Prior to the amendment to the Act, the AEP employrs were able to apportion part of the costs back to ACC, while ACC was itself just allocating all the costs to the Work Account. The amendment saw liabilities shifted as well as some assets from the Work Account.

The proposed levy was due to jump from 35 cents to 54 cents. In fact it only increased to 43 cents due to agreement that the costs would be met on a stepped premium approach basis. The Residual Claims Account (RCA) was set up with the aim of funding the cost of all the claims by 2014.

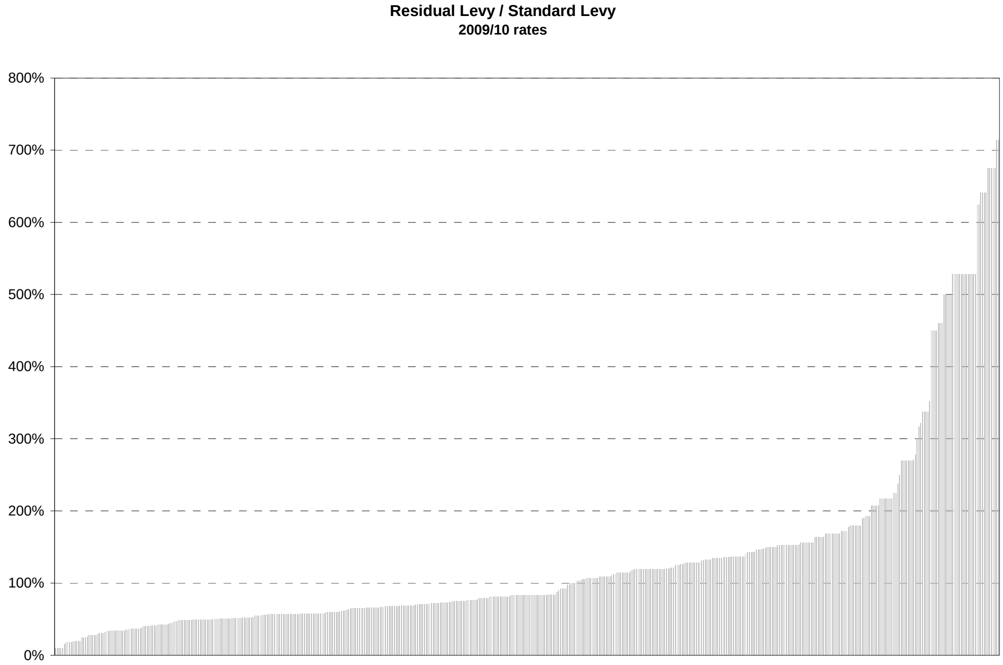
It is hard to argue against the current cost allocation basis, although some parties choose to. However it does raise the following questions in respect of the ACCPP:

- Should the employers not be able to manage the RCA claims themselves if they choose?
- Should gradual process claims by their very nature be funded separately from personal injury claims?

Update As noted in section 2.4 the funding date is expected to change to 2019 and the RCA levy will reduce to 36 cents. Without the change in the funding date the rate would increase to 71 cents.

7.2 Some high historical rates

The problem posed by the RCA levy for some employers is illustrated in the chart below which compares the RCA levy with the standard levy for all risk groups. An employer who is achieving success with their claims management for current claims will be very unhappy if they are paying 6 times the standard levy rate for their pre 1999 claims.



Around 50% of the levy groups have an RCA rate of 100% or less of the standard levy and 50% are above the 100% rate.

While the RCA is due to be fully funded by 2014, because of the level of under funding of the account and the consequent levy increases required, the date is expected to be moved to 2019. Most employers accept the importance of completing the funding of the historical claims.

Update Per the Amendment Bill the funding date is due to change to 2019.

8. Determining the actuarial liability

8.1 Introduction

The initial approach taken by some employers when assessing the outstanding cost of future claims was to take the TPA's case estimates for the existing open claims. This made no allowance for claims yet to be made for the cover period and nothing for the cost of reopened claims and no allowance for the chance that the case estimates were understated.

8.2 Approach adopted

We adopt the following approach:

- Take the case estimates supplied
- Make provision for IBNR and reopened claims in accordance with the factors applied by ACC when taking over the claim liability from an employer. IBNR claims would include any gradual process claims
- Include a provision for future claims management costs, again in accordance with the ACC factors.

We review previous case estimates supplied to see to what extent the figures have eventuated. If actual costs are significantly different to the case estimates, an IBNER provision is made.

Details on the ACC re opened and IBNR factors are included in Appendix E. The re opened factors vary by type of claim (either medical or entitlement) and when the last payment was made. The more recent the payment made, the higher the provision. The factors are applied to the closed claims.

8.3 Adjusting the factors for an employer's own experience

The issue to be addressed is whether to adjust the factors for the AEP employer's own experience. This can be allowed for in the case of the re opened factors as they are based on the actual claims paid. Whether a further adjustment is required is the question. More difficult are the IBNR factors. It is possible to compare the actual paid figures with those expected based on the tables published by ACC on the development of claims. Adjustments are required to allow for the impact of the surplus in the Work Account. To date we have looked at this relationship to decide whether or not to adjust the IBNR factor. This is a dominant component of the liability in the current cover year and preceding year.

It can easily be argued that the claims management cost factor resulting from adopting the ACC factors is too low if the claims were put into a run off state.

An illustration of determining an actuarial liability is included in Appendix G. It includes comparison of experience with the alternative of paying the standard levy, a comparison of expected with actual claims paid, details on claims paid by type, nature of injury and largest 10 claims.

8.4 IFRS4 requirements

IFRS4 covers insurance contracts and the issue exists whether an actuarial valuation completed to determine employer's outstanding liabilities under the ACCPP should comply with the requirements of IFRS4. This is separate to the issue of materiality. If the liability is to meet IFRS4, then the disclosure requirements will include information on interest and inflation rates adopted. However we would question whether an employer participating in the ACCPP with its own insurance cover is covered by IFRS4. The approach we have taken to date is that the matter is for the auditor to assess. We derive a best estimate of the liability and do not make any provision for a prudential margin.

9. Experience versus ACC

9.1 Introduction

In this section we look at the statistics that are available to compare the ACCPP with the standard employer experience and the work MJW completes for clients in this area.

9.2 ACC statistics

Ideally there would be comprehensive official statistics available which provide information to compare the experience of employers in the ACCPP with employers in the standard scheme. There are three statistics in the “ACC Partnership Programme Employer Performance Report” referred to in section 7 which do provide a comparison. This work may have been a response to the third recommendation of the Tripartite review.

Year ending March	Claims per $m liable earnings		Weekly compensation claims per $m liable earnings		Average cost per claim $'s	
	Work Account	ACCPP	Work Account	ACCPP	Work Account	ACCPP
2003	3.19	3.33	0.39	0.40	1,336	1,035
2004	2.89	3.11	0.37	0.39	1,374	1,153
2005	2.58	2.84	0.35	0.40	1,472	1,155
2006	2.42	2.66	0.34	0.38	1,522	1,170
2007	2.21	2.38	0.32	0.36	1,437	1,105
2008	1.98	2.19	0.28	0.33	884	728

Commenting on the table:

- The Work Account results exclude any AEP employers
- The average claims costs ignore future costs and is just the cost of claim payments made to date
- The frequency of claims is consistently lower for the Work Account
- Similarly, the number of weekly compensation claims is lower in the Work Account
- However the cost of an average claims for the ACCPP is lower
- The claims shown are total claims covering both medical and entitlement claims.

However the above results do not take account of the risk profile of the AEP employer. In the reports to employers published in December 2008, ACC does compare the AEP employers results against the risk rated LRG results, allowing the employer to see how their performance compares with a similar risk rated group of employers. It would therefore be possible for ACC to provide this figure on a total comparison basis.

Statistics from the South Australian scheme show the cost for self insured employers is 35% less than under the fully insured scheme, a sizeable difference. We are not aware whether this is on a risk rated basis.

9.3 Own research

We explored this further by reviewing the actuarial valuations we completed for clients in the 2008 year. In our reports we include a table which compares the costs to the employer under the ACCPP with the cost if they had paid the standard levy net of the applicable WSMP. The costs include that of either employing an external TPA or having this function performed internally. It would be natural to expect the results to vary by size of employer so we split up and divided the employers into 3 groups based on the standard levy payable.

The tables below show results for each of the cover periods since inception for the 3 groups of employers. The results have been adjusted to eliminate the impact of the surplus in the Work Account. We note:

- The 'large' employer group has the best results with an average cost of 68% compared to the standard levy
- The worst results are from the 'medium' employer group
- The results for the 'large' employer group have remained reasonably consistent over the period. In contrast, the results for the 'medium' and 'small' employer groups have deteriorated over the last 2 years.

Total Costs as % of Std Levy net SMP

Partner Size	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09 YTD	Total
Small	47%	49%	68%	95%	112%	84%	118%	105%	115%	86%
Medium	82%	76%	81%	115%	129%	91%	89%	101%	104%	100%
Large	72%	75%	74%	61%	51%	69%	58%	69%	92%	68%

Commenting on the results further:

- The sample of employers is smaller than we might have liked and so the results need to be treated with some caution.
- The basis adopted to derive the results is intended to be on a best estimate result and so does not include any margins.
- Despite the comment above, the more recent results will almost certainly be rather more conservative as a higher percentage of the costs are estimated and there is necessarily some element of conservatism in the basis.
- The administration costs for the employers vary as follows:
  - Less than 10% for the larger employers
  - 20% for the smaller employers
  - 15% for the medium employers.

An important factor here is that we would always expect the results for an employer to be better than the alternative of the standard levy for most years In most years the employer is not going to have any major accidents and it is the cost of paying for these which pushes up the standard levy. An average employer would, if their experience over time was exactly the same as that in the standard levy, experience say 9 below average years and 1 very poor year when possibly their insurance cover limits the costs.

To get an indication of this cost we looked at a table published by ACC in their 2008/09 pricing report which shows the projected cost of claims by development year.

	Development Year							
Payment Type	1	2	3	4	5	6	7+	Total
Weekly Compensation	0.124	0.102	0.044	0.027	0.020	0.016	0.097	0.429
Death Benefit	0.001	0.002	0.002	0.002	0.002	0.001	0.005	0.014
Lump Sum	0.000	0.000	0.000	0.006	0.002	0.002	0.007	0.016
Rehab & Other	0.034	0.045	0.015	0.008	0.006	0.004	0.031	0.143
Medical	0.067	0.033	0.008	0.004	0.002	0.002	0.017	0.133
Total	0.226	0.181	0.068	0.047	0.031	0.025	0.157	0.736

An indicator of the cost of large claims is the cost of claims from development year 7 onwards. This will include rehabilitation and medical costs etc for "ordinary" claims but against this we ought to include the costs of the large claims in development years 1 to 6. The cost from the table is 21% of the total claims cost which suggests that the costs or the larger claims could be around 25%. This would imply that an average employer in an average year should be benchmarking themselves against 75% of the standard levy to assess their own performance.

We would expect the AEP employers to have achieved better outcomes than the results available suggest is the case.

9.4 Using the ACCPP performance results to improve H&S for the employer

Accident costs have two components, frequency of accidents and severity of each claim. The former is an indication of the H&S regime in place, the latter an indicator of how good the rehabilitation is.

What statistics can be usefully provided when the claims data is reviewed? These include:

- Dollar costs by development year for each cover period
- Number of claims split by medical only and entitlement claims
- Duration of claims
- Comparison of costs by injury type by operating site or division
- Comparison of costs by cover period
- Delay in reporting accident and when it occurred.

The above can be supplied comparing different cover periods. What would be useful is if ACC was able to supply some benchmark statistics. An outcome would be that an employer could then judge whether or not they should be in the ACCPP and if they are, how they are doing and how could they improve.

While the claims administrator will report regularly on the cost of claims, the actuarial review provides an opportunity once a year for these statistics to be carefully reviewed for what they say about worksite safety.

An employer who is self insuring will want to ensure that each operating division is allocated its own accident costs correctly. Just allocating all these costs to "corporate" will not assist the people at the front line who can by their actions make a difference to the accident incident rate. The one difficulty in this area is that allowance has to be made for the cost of large claims in one division.

It is not reasonable to allocate all this cost to the one division; the reason being that quite possibly each division would not be able to self insure on its own. A basis has to be found to spread these large claim costs across the whole company. Most approaches to this would involve capping the cost of any one accident that can be charged to each division, but sharing any actual costs above the cap across all divisions. There are several ways of doing this that could range between:

- The simplest approach would apply a set cap for all divisions and divide any excess in proportion to the basic claims costs for each division, and
- For large entities with diverse operations, using formulae based on the size and risk involved in each division's operations to determine appropriate caps and shares of charges. These calculations might refer to the standard ACC rates for the various activities involved.

10. Possible changes to the ACCPP Scheme

10.1 Insurance options

ACC expanded the original range of insurance stop loss options available and from 2003 AEP employers have been able to purchase the High Cost Claims Cover. However, there is a fair bit of criticism of both the level of the rates charged by ACC and that the cover available does not meet the needs of the employer. It is claimed that there have been instances where an employer has exited the programme because they have determined that the finances of their company could not withstand a major accident cost. I.e. the level of the cover available to them is too high. (It is possible that if the employer considered the options further they may not reach this view as the HCCC is set at a relatively low level of $250,000 and this limit applies to any number of "events" in a cover period.)

In the privatised year the responsibility for arranging an insurer was mainly left with the person responsible for insurance and the insurers responded with their "standard" insurance options. These ranged from:

- Burning cost ie based on average past experience
- Retro-rating ie based on expected claims outcome.
- etc

However, would the insurers be prepared to enter the market if the chance was offered? ACC with its long tail liabilities is not an easy area for an insurer. How would they rate the risks?

The concerns that exist about insurers' ability to provide the cover and "always" be there to meet their liability should be lessened by the impact of the new prudential regime due in 2010 for insurers. This will entail major changes for general insurers particularly in meeting the requirements of the proposed new solvency standards. Under the privatised regime, a special system was put in place to deal with this issue. The system was successfully built around the prudential supervisor role given to Trustee companies. Just meeting the insurance requirements of the self insurers will not involve significant premium levels and high capital requirements.

The data available to the insurers would be limited ie they would not have the same data as was released when the market was privatised in 1999. We expect the insurers would be keen to enter the market, if only, because they want to increase their knowledge on the basis that it will be open to competition at a later date. Also, they will want to further relationships that they have already with existing employer clients.

The comment exists that the premiums charged by ACC for the insurance are high. We are not in a position to judge this but have included details on the rates in section 3.7 for comment by others. By definition the premium is a large component where the HCCC is at its lowest level.

10.2 Revising the current audit requirements

For some time the employers have complained about the rules based health & safety and injury prevention ACC audits to which they are subjected. The complaints refer to the manuals they must compile and the number of boxes they have to tick. Progress has been made in this area since the Tripartite 2008 review referred to in section 5 above.

One area for change that the TPA's argue for is that the level of discounts should be dependent on the claims outcome not the employer's claims process and audit documentation.

This takes us back to the need for good and reliable statistics on an employer's claims incidence and on the return to work costs - which in turn bring us to the question of the need to rely on the statistics supplied by an employer and the incentives that could exist for under reporting claims. ACC will need to ensure that there is no systematic under reporting.

A comment was made that the auditors should put more effort into reviewing the claims with longer duration and in fact all claims which are more than 2 years duration should be subject to an annual audit from ACC. In some respects the AEP employers should be volunteering these claims to ACC for comment in order to gain another insight and strategy on how to get these claimants back to work.

In summary there is the overriding need for the audit requirements to facilitate the participation of the employers to achieve good claims outcome in the programme.

Any cases of under reporting by an employer will need to be managed accordingly.

The focus of the audits has to be on the results achieved by the employer.

10.3 Flexible claims management periods

The question exists as to why the FSCP claims management period should be limited to 4 years. The percentage of claims which are handed back is minimal so why not leave them with the employer. The facility already exists for an employer to hand back to ACC any claims where ACC is better placed to manage a difficult claim.

The employers are well placed to manage the claims in the short term and in general are happy to hand over the longer term claims to ACC. It is over the short term that the employers will add value not over the long term.

A long term claimant whose claim is being managed by their employer will have to stay in touch with their employer to receive payments due to them. An argument for leaving this role with the employer is that they may well be more questioning of the payments claimed. This could lead to disputes between the parties, but these could be dealt with by an appropriate agency.

The claims costs involved after the hand back date are significant. Based on the table in section 10.3 the costs are around 25% of the full cost. ACC does sometimes complain that they receive little assistance from employers in rehabilitating a claimant who has been handed back to them. This outcome is unsatisfactory to all parties including the claimant. The reason for the employer having no interest is that they have paid the claims cost to ACC and there is no incentive to them from that point to assist the person back to work.

It would seem that the best system is for employers to sign up for an indefinite claims management period and then allow them to hand back either individual claims or whole cover periods, if they elect to do so. For example, some employers may still elect to handback after 4 years. However here lies a problem with the current system. The only claims an employer has ceased to have liability for are those claims which were deemed to be still active at the end of the claims management period and ACC put an assessed future cost on them (including nil estimates). All the other claims for a cover period remain the liability of the employer indefinitely. In practice the costs involved will not be significant. Evidence suggests that ACC has not been good at allocating costs from these claims back to the employer.

A flexible claims management period would require a flexible insurance response such that in the event of a handback the insurer refunded back part of the premium paid.

When the first hand backs occurred under the programme the understanding of all parties was that the employer would pay an amount to extinguish all the future liabilities. This is what occurred for the first case. It came as a surprise that the advice was changed so that the employer remained liable for the future cost of all non assessed claims.

10.4 Give employers the option to manage non work claims and less serious motor vehicle account claims

Employers are in the ACCPP as they want to get their employees back to work after an accident. It costs them money for to provide workplace cover for the off work employee. This applies irrespective of whether the accident is at work or not at work. Therefore an employer should be given the option to decide whether they wish to manage their non work accidents. Many employers already do and one employer said that the claims managers spend 33% of their time on non work accidents.

In this case the claims costs would be refunded back from ACC and the employer paid a fee for managing the claim. This would also apply to non-serious motor accident claims. ACC could be given the right to decide whether the accident was of sufficient gravity that they were the more appropriate party to manage the claim.

Statistics would be maintained again on the rehabilitation outcome of these claims. If the performance of the employer was not deemed to be satisfactory then the right to manage such claims would be withdrawn. Although, if this was the case, then the same would presumably be applied to workplace accidents.

A counter argument is that the person has themselves paid the premium in both cases and so should have the right to have ACC manage the claim. The argument against is that the employer should be better at this.

It would also have the positive impact of expanding the role of the current TPA’s with the increase in their business good for them and for the introduction of new players into the market place.

Opening up the Earners Account accidents to the employers to manage may also bring forth some further ideas on who should pay the premium.

10.5 Opening up the residual claims account

In a small number cases there are employers who remain interested in managing their residual claims ie the pre 1999 accidents. They could be given the opportunity to manage these claims if they wish. As noted in section 8 in some cases the size of an employer’s RCA levy is up to 700% of the standard levy. This is an extraordinary difference. The focus should be whether or not the employer is going to get better rehabilitation outcomes than is the current case. The problem for an individual employer is that they will only get involved if there is direct financial benefit to them putting in time and effort to rehabilitate the pre 1999 employees. It should be possible for ACC to allow for this when they set the RCA rates.

10.6 TPA’s

They play a major role and are currently not subject to any specific regulations. As noted in the 2003 Deloitte report they initially complained of a lack of recognition from ACC in the role they played. This probably arose because the expectation was that more employers would self manage and the question was being asked by ACC as to why were all the TPA’s involved. But this seems to be an unrealistic expectation due to the technical and complex nature of the work involved. They are very much the agent of the employer and all decisions on claims etc are in effect decisions made by the employer and not the TPA. How their role could be expanded is an interesting question. Whether they should be separately audited and regulated is another question. If they were it might improve the overall abilities and service level of the TPA’s.

A separate point and a criticism of the ACCPP is that in some cases the providers, for instance physiotherapists, have to wait before getting paid as opposed to ACC who is faster at paying them. It should be mandatory for employers to pay providers within an agreed period.

Further to the comments under 10.5 above, it has been argued that ACC could under the current legislation employ the TPA's to manage an employer's non work and motor accident claims and so achieve the change suggested in 10.5.

ACC is currently looking at employing the TPA's to assist them in reducing the existing longer duration claims.

10.7 Introduce more benchmarking of claims

As noted in section 7 ACC currently provides an annual report to the accredited employers which includes some performance statistics. Expanding these to provide more information on relative performance is essential. Ideas for inclusion on this were included in section 10.4. A further useful change would be for the date of the report for each employer to coincide with the employer's year end so that the statistics can be used where an actuarial report is completed.

There will be problems initially when the statistics are compared as there will exist different reporting practices. Exploring the reasons why will be of value to the parties concerned and it should be possible to resolve these differences over time.

The benchmarking needs to cover both the ACCPP and employers paying the standard levy. Arguably, at the current time, the injury statistics published by ACC are limited. They receive most exposure in the ACC annual report.

As noted in section 10.3 we had expected the employer results to be better than they have been. More benchmark information will enable employers to make better decision on the effectiveness of their claims management and whether in fact they should remain in the programme

10.8 Open up such that more medium sized employers will be prepared to join the programme.

In South Australian around 35% of the workforce is cover by self insurer compared to 22% in New Zealand. This would suggest that the opportunity exists for an expansion of the NZ scheme. A simpler audit process and greater flexibility with the insurance options would assist this. The purpose of extending the scheme to more employers is on the basis that this will bring better outcomes to injured workers and less accidents. Whether this was the case, will need to be monitored carefully, which goes back to the issue of ACC providing more benchmarking statistics to employers.

10.9 Move to a system similar to that in Australia

There is often a too ready willingness in NZ to disregard any alternatives that are Australian based. This is possibly reinforced in the case of ACC by the belief that the NZ system is so much better than any Australian alternative. However there approach to self insurance within their workers compensation scheme is worth reviewing to see what features could be followed in NZ

We have solely commented on the South Australia Work Cover scheme. In summary the scheme involves:

- An application fee is payable.
- On attaining self insurance an employer becomes directly responsible for all new claims from its workers, and must enter into a contract with WorkCover to manage any existing claims.
- The applicant must meet a set of financial criteria to establish its ability to meet claims. It would be unusual for an employer with net tangible assets of less than $50 million to be considered acceptable.
- The self insurer must provide, at its own cost, annual actuarial reports, financial guarantees excess of loss insurance and transmit claims data to WorkCover.

- A self insurer must pay a levy as a contribution to the overheads of the WorkCover scheme and this includes a component to cover the liabilities of self insurers in the event of insolvency. This levy is a small percentage of what the employer would pay if it was not self insured

The self insurers are required to comply with a “Code of conduct for self-insured employers” under the WorkCover Scheme.

The requirements of the actuarial review are detailed and involve a review of the employer’s claims experience.

The scheme is much more comprehensive than the ACCPP. The financial guarantee arrangements could be replicated in NZ although ACC currently charges a small premium in the administration charge to cover this.

The idea of a code of conduct for the employers could be taken.

10.10 Full disclosure of the finances of the ACCPP

A move which would improve confidence in the ACCPP would be if ACC accounted for the scheme separately and fully disclosed the outcomes. This should also impose an ACC a greater discipline to ensure that the costs of claims post hand back are allocated fully to the employers. It would further provide an opportunity to see compare the costs of the insurance with the premium collected.

Appendix A

Woodhouse Principles

These 5 guiding principles are contained in the Woodhouse Report 1967 at pages 39-41.

1. Community responsibility

First, in the national interest, and as a matter of national obligation, the community must protect all citizens (including the self employed) and the housewives who sustain them from the burden of sudden individual losses when their ability to contribute to the general welfare by their work has been interrupted by physical incapacity.

2. Comprehensive entitlement

Second, all injured persons should receive compensation from any community financed scheme on he same uniform method of assessment, regardless of the causes which gave rise to their injuries.

3. Complete rehabilitation;

Third, the scheme must be deliberately organised to urge forward the physical and vocational recovery of these citizens while at the same time providing a real measure of money compensation for their losses.

4. Real Compensation

Fourth, real compensation demands for the whole period of incapacity the provision of income-related benefits for lost income and recognition of the plain fact that any permanent bodily impairment is a loss in itself regardless of its effect on earning capacity.

5. Administrative efficiency

Fifth, the achievement of the system will be eroded to the extent that its benefits are delayed, or are inconsistently assessed, or the system itself is administered by methods that are economically wasteful.

Taken from: *Royal Commission of Inquiry - Compensation for Personal Injury in New Zealand* ("The Woodhouse Report"), Government Printer, 1967.

Appendix B

Maximum earnings

The annual maximum earnings are below:

Cover year ended 31 March	Maximum earnings for employees
2004	$88,728.25
2005	$92,188.85
2006	$94,225.95
2007	$96,619.25
2008	$99,817.25
2009	$102,921.65
2010	$106,472.60

Appendix C

WMSP Audit Details

Critical Element	Objective	Details of requirements
1	The employer is able to demonstrate an active, consultative commitment to all areas of health and safety management in the workplace.	• Documented health & safety policy, authorised by current CEO or other senior management.
2	The employer is able to demonstrate a focus on continuous improvement through a systematic approach to occupational health and safety that includes setting specific objectives, establishing and supporting systems or programmes to achieve objectives, regular review of progress and evaluation of outcomes.	• A process exists to ensure that health & safety management for the workplace is reviewed. • (SMART) Health & safety objectives are set. • Effectiveness of hazard management is reviewed / evaluated. • Employer can demonstrate knowledge of current safety related information including legislation, regulations etc.
3	The employer has an active method that systematically identifies, assesses and manages the actual and potential hazards in the workplace, over which the employer has authority or influence.	• Process to identify and record hazards. • Controls in place for each hazard to eliminate the hazard completely, isolate the hazard to prevent exposure or minimise its impact. • There are trained people to identify / manage hazards. • Etc
4	The employer will ensure that all employees are informed of their own responsibilities and the employer's responsibilities for health and safety in the workplace. The employer will ensure that employees have specific knowledge concerning management of the hazards to which they are exposed…	• Health & safety induction training for new employees.
5	The employer has an active reporting, recording and investigation system that ensures incidents and injuries are reported and recorded and the appropriate investigation and corrective actions are taken…	• System for reporting, recording and analysing incidents, injuries and work related illnesses. • Employer has procedures to investigate incidents and to ensure corrective action is undertaken. • Injury & incident data is reviewed to identify trends that can be used in prevention.

6	The employer will ensure that all employees have ongoing opportunities to be involved and to have their interests represented in the development, implementation and evaluation of safe workplace practices.	• Form to enable communication between employer and employee on issues of health & safety. • Health & safety training provided to employees actively involved in health & safety management.
7	The employer has an effective general emergency plan to manage emergencies likely to occur within any part of the organisation's operation and to comply with legislative requirements.	• Documented emergency plan that identifies potential emergency situations and meets relevant emergency service requirements. • Emergency procedures implemented and communicated with all employees and contract staff. • Designated employee or warden for each work area to take control in an emergency. • Periodic testing of emergency evacuation procedures at regular intervals – at least 6 monthly. • Consultative review of emergency response procedures after any practice drills and after any actual emergency event.
8	The employer has a systematic approach to ensure that contractors, subcontractors and their employees do not cause harm to the employees of the principal while undertaking work required by the contract.	
9	Systems-related requirements to be observed as part of the independent audit.	• The auditor is able to observe some selected standard requirements in practice e.g. hazard registers, current safety information on display, emergency exits clearly marked etc.
10	The employer is able to confirm and validate hazard management systems through management and employee focus groups.	

Appendix D

Feedback from the TPA's

The following questions were put to he TPA's with a summary of their responses shown.

Are you broadly happy with the current ACC PP?

The responses included:

- It is not a level paying field with ACC both the regulator and a player in the market through its subsidiary TPA.
- It's a good programme which encourages good responses from employers to health and safety and rehabilitation.
- Compliance is overweighed.
- Current financial incentives are too weak. Reference to the cost of the RCA and the low standard levy due to surplus in Work Account.
- Too limited insurance options.

What are your specific criticisms of the programme?

The responses included:

- Dual standards. ACC PP Clients are required to meet far higher standards than ACC itself.
- Should have open ended claims management period.
- Audits too frequent and onerous.

What changes could easily be made to improve the ACC PP?

The responses included:

- The audit process should move to a continuous improvement model rather than compliance driven.
- Stop loss. Reference to DoL report questioning cost of stop loss premiums.
- Open up insurance to private insurers.
- Allow employers to mange non-work claims
- Incentive SME to join
- Comment that operational changes identified in the operational review are being implemented.
- For employers to put in place financial guarantees to ACC in event of insolvency.

There was a review of the ACC PP in 2007. Was it valuable and (did it produce) do you think it produced any good outcomes? What improvements (or problems) have resulted from the review?

The responses included:

- Rationalised the audit process. Fewer audits for employers.
- Greater employee representation seen as a negative.
- Issues around financial issues were ignored.
- Complete white wash.

How could the rules change in regard to the role you as a TPA play?

The responses included:

- Allow employers to manage non work claims.
- Separate out the ACC regulatory role.
- Does not currently allow for innovation by employers.
- TPA's should be officially accredited.

On a wider front, what changes would you like to see in the whole ACC system to improve the rehabilitation outcomes for injured workers?

The responses included:

- Go back to basics of rehabilitation.
- Contract out more claims management to TPA's.
- Set up some genuine benchmarks for TPA's.
- Identify rehab needs and put plans in place by day 7.
- Manage the providers more closely.

What does ACC the provider do well?

The responses included:

- Pays claims very efficiently.
- Excellent material on wide range of topics

Appendix E

ACCPP Reopen factors

ACC Reopen Factors (Entitlement) - for use from 1/4/08 to 31/03/09

Number of quarters since accident occured	Number quarters after accident when last payment made: 1	5	9	13	17	21
25	2.7%	3.7%	5.1%	7.0%	9.7%	13.3%
24	2.9%	4.0%	5.5%	7.6%	10.4%	14.4%
23	3.1%	4.3%	5.9%	8.1%	11.2%	15.5%
22	3.3%	4.6%	6.4%	8.8%	12.1%	16.7%
21	3.6%	5.0%	6.8%	9.4%	13.0%	
20	3.9%	5.3%	7.4%	10.2%	14.0%	
19	4.2%	5.8%	7.9%	10.9%	15.1%	
18	4.5%	6.2%	8.5%	11.8%	16.2%	
17	4.8%	6.7%	9.2%	12.7%		
16	5.2%	7.2%	9.9%	13.6%		
15	5.6%	7.7%	10.7%	14.7%		
14	6.0%	8.3%	11.5%	15.8%		
13	6.5%	9.0%	12.3%			
12	7.0%	9.6%	13.3%			
11	7.5%	10.4%	14.3%			
10	8.1%	11.2%	15.4%			
9	8.7%	12.0%				
8	9.4%	13.0%				
7	10.1%	13.9%				
6	10.9%	15.0%				
5	11.7%					
4	12.6%					
3	13.6%					
2	14.6%					

To illustrate the use of the factors:

1 If an accident occurred 10 quarters ago and the last entitlement payment was made 9 quarters after the accident then the provision is 15.4% of the payment.

2 If the last payment was 5 quarters after the accident the provision is 11.2%.

ACC Reopen Factors (Medical) - for use from 1/4/08 to 31/03/09

Number of quarters since accident occured	Number quarters after accident when last payment made: 1	5	9	13	17	21
25	5.9%	10.2%	17.7%	30.8%	53.4%	92.7%
24	6.5%	11.3%	19.6%	34.0%	59.0%	102.5%
23	7.2%	12.5%	21.6%	37.5%	65.2%	113.2%
22	7.9%	13.8%	23.9%	41.5%	72.0%	125.0%
21	8.8%	15.2%	26.4%	45.8%	79.5%	
20	9.7%	16.8%	29.1%	50.6%	87.8%	
19	10.7%	18.5%	32.2%	55.9%	97.0%	
18	11.8%	20.5%	35.6%	61.7%	107.2%	
17	13.0%	22.6%	39.3%	68.2%		
16	14.4%	25.0%	43.4%	75.3%		
15	15.9%	27.6%	47.9%	83.2%		
14	17.6%	30.5%	52.9%	91.9%		
13	19.4%	33.7%	58.5%			
12	21.4%	37.2%	64.6%			
11	23.7%	41.1%	71.3%			
10	26.1%	45.4%	78.8%			
9	28.9%	50.1%				
8	31.9%	55.4%				
7	35.2%	61.2%				
6	38.9%	67.6%				
5	43.0%					
4	47.5%					
3	52.5%					
2	57.9%					

To illustrate the use of the factors:

1 If an accident occurred 10 quarters ago and the last medical payment was made 9 quarters after the accident then the provision is 78.8% of the payment.

2 If the last payment was 5 quarters after the accident the provision is 45.4%.

ACC IBNR factors - for use from 1/4/08 - 31/03/09

At beginning of development year	0	1	2	3	4	5	6	7	8	9
As % of liable earnings	0.58760%	0.16160%	0.03884%	0.02372%	0.01655%	0.01250%	0.01027%	0.00888%	0.00781%	0.00681%

To illustrate the use of the factors:

1 The factors are average factors and when applying them to an employer they are adjusted for the actual standard levy applicable. For example if the levy is twice the average standard levy the factors are 200% of the above factors.

Appendix F

Proposed Scheme amendments in Bill introduced to House in October 2009

1 Amendments to improve flexibility

- Full funding of the Residual Claims Account by 2019
- Enable experience rating and risk sharing in the Work Account
- Enable risk rating in the Motor Vehicle Account for both vehicles and vehicle owners
- Technical amendment to improve access to Cover-Plus Extra for shareholder employees

2 Cost-containment amendments

- Cover Repeal changes made in 2008 to test for causation for workplace gradual process, disease, or infection
- Cover Hearing loss claims introduction of a 6% threshold
- Weekly compensation Reinstate former calculation for long-term (after 4 weeks) weekly compensation for non-permanent employees
- Weekly compensation Return increasing weekly compensation to minimum weekly earnings rate from after 5th week of incapacity, instead of from 2nd week
- Weekly compensation Abatement of holiday pay
- Weekly compensation Reduce loss of potential earnings compensation for young people back to 80% of minimum weekly earnings
- Vocational independence and rehabilitation Replace vocational independence threshold of capacity to work for 35 hours per week with capacity to work for 30 hours per week
- Vocational independence and rehabilitation Make it optional for occupational assessors to consider pre-incapacity earnings when undertaking initial and vocational independence assessments
- Disentitlement Wilfully self-inflicted injury and suicide
- Disentitlement Strengthening disentitlement provision for claimants for whom it would be repugnant to justice to provide entitlement
- Ministerial advisory panels Remove requirement to have Ministerial Advisory Panels on Work-related gradual process, disease, or infection and injury surveillance

3 To facilitate ACC working more closely with other agencies

- Enable ongoing information sharing between IRD and ACC to ensure good customer service
- Enable ACC to provide non-ACC related government services or entitlements to ACC claimants
- Require ACC to table annually financial condition reports in Parliament.

Appendix G

Illustration of Actuarial Liability

ACCPP Experience as at 31 March 2009 (Net of stoploss)

Cover Period	2000/01 $000s	2001/02 $000s	2002/03 $000s	2003/04 $000s	2004/05 $000s	2005/06 $000s	2006/07 $000s	2007/08 $000s	2008/09 $000s	Total $000s
Levies										
Standard Levy (excl. Residual & HSE levies)	2,055	2,117	1,791	2,535	3,498	2,992	2,523	1,924	1,491	20,926
Safety Mgt Practices Discount	(308)	(318)	(269)	(380)	(525)	(449)	(378)	(289)	(224)	(3,139)
FSCP Discount (varies by cover period)	(1,671)	(1,733)	(1,468)	(2,054)	(2,860)	(2,442)	(2,052)	(1,563)	(1,206)	(17,049)
FSCP Administration Fee (varies by cover period)	62	78	66	76	105	90	68	104	89	738
Stoploss / HCCC	24	25	54	38	67	69	52	153	164	646
Total FSCP Levy (excl. GST)	162	170	175	215	285	261	212	329	315	2,123
Claims										
Estimated claims paid to 31 March 2009	345	789	950	897	831	783	762	762	386	6,506
Outstanding Claims Liabilities as at 31 March 2009	20	44	70	94	106	153	255	328	746	1,816
Total claims cost (excl. GST)	365	833	1,019	992	938	936	1,017	1,091	1,132	8,322
Administration Costs (excl. GST)	200	200	205	210	194	182	184	193	204	1,773
Total Costs (excl. GST)	**726**	**1,203**	**1,399**	**1,417**	**1,416**	**1,379**	**1,413**	**1,613**	**1,651**	**12,218**
Standard levy net of SMP discount	**1,747**	**1,799**	**1,523**	**2,155**	**2,973**	**2,543**	**2,144**	**1,635**	**1,267**	**17,787**
Total Costs as % of Standard Levy (net SMP discount)	**42%**	**67%**	**92%**	**66%**	**48%**	**54%**	**66%**	**99%**	**130%**	**69%**

Note: All figures exclude GST unless otherwise stated

Estimation of ACCPP Outstanding Claims Liabilities as at 31 March 2009

Accident/Cover Period	2000/01 $000s	2001/02 $000s	2002/03 $000s	2003/04 $000s	2004/05 $000s	2005/06 $000s	2006/07 $000s	2007/08 $000s	2008/09 $000s	Total $000s
Estimated claims paid										
Claims paid to 31 March 2009	345	789	950	897	831	783	762	762	386	6,506
Estimated future claims										
IBNR claims	7	11	13	16	20	27	37	65	276	471
Reopened claims	11	30	52	72	66	88	99	123	88	630
Open claims	0	0	0	0	13	28	101	117	329	589
Total future claims	18	41	65	88	99	142	237	305	694	1,690
Total estimated future claims before stoploss	363	830	1,014	985	930	926	999	1,068	1,080	8,196
Stoploss cutoff	3,082	3,175	2,687	3,803	5,247	4,488	3,784	3,232	3,340	
Claims in excess of stoploss	0	0	0	0	0	0	0	0	0	0
Total estimated future claims after stoploss	18	41	65	88	99	142	237	305	694	1,690
Claims management expenses reserve	1	3	5	7	7	11	18	23	52	127
Total Outstanding Claims Liabilities Required	**20**	**44**	**70**	**94**	**106**	**153**	**255**	**328**	**746**	**1,816**

Expected Claim Costs (Incremental)

	Std Levy	Loss	Expected	Development Year									
Cover Period	**net SMP**	**Ratio**	**Claims**	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**Total**
2000/01	1,746,640	88%	1,538,707	473,126	378,920	142,357	98,393	64,898	52,337	44,723	38,364	32,872	1,325,989
2001/02	1,799,409	88%	1,585,193	487,420	390,367	146,657	101,366	66,859	53,918	46,074	39,523		1,332,184
2002/03	1,522,591	88%	1,341,330	412,436	330,314	124,096	85,772	56,573	45,623	38,986			1,093,801
2003/04	2,155,085	88%	1,898,527	583,765	467,529	175,646	121,402	80,074	64,576				1,492,992
2004/05	2,973,460	88%	2,619,476	805,444	645,068	242,346	167,504	110,481					1,970,844
2005/06	2,543,260	88%	2,240,491	688,913	551,740	207,284	143,270						1,591,206
2006/07	2,144,223	88%	1,888,958	580,823	465,172	174,761							1,220,755
2007/08	1,635,009	105%	1,716,760	527,874	422,767								950,641
2008/09	1,267,300	140%	1,774,220	545,543									545,543
Total	17,786,978	93%	16,603,664	5,105,344	3,651,877	1,213,146	717,708	378,885	216,454	129,783	77,886	32,872	11,523,955

Actual Claim Costs (Incremental)

	Development Year										
Cover Period	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**		**Total to Date**
2000/01	182,458	135,448	20,355	5,589		1,380					345,230
2001/02	347,701	259,116	106,954	58,950	15,900						788,621
2002/03	473,168	239,960	106,962	73,304	56,304		32.532				949,730
2003/04	412,392	247,612	86,477	74,858	75,716	202					897,256
2004/05	491,747	215,349	50,347	23,953	49,827						831,221
2005/06	426,331	234,439	86,970	35,513							783,252
2006/07	452,462	237,599	71,686								761,747
2007/08	493,270	269,173									762,443
2008/09	386,432										386,432
Total	3,665,960	1,838,694	529,751	272,166	197,747	1,582	33	0	0	0	6,505,932

Actual / Expected Claim Costs (Incremental)

	Development Year									
Cover Period	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**Total**
2000/01	39%	36%	14%	6%		3%				26%
2001/02	71%	66%	73%	58%	24%					59%
2002/03	115%	73%	86%	85%	100%					87%
2003/04	71%	53%	49%	62%	95%					60%
2004/05	61%	33%	21%	14%	45%					42%
2005/06	62%	42%	42%	25%						49%
2006/07	78%	51%	41%							62%
2007/08	93%	64%								80%
2008/09	71%									71%
Total	72%	50%	44%	38%	52%	1%	0%	0%	0%	**56%**

Number and Amount by Claim Type

Cover Period	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**Total**
Entitlement										
Number of claims	126	255	300	335	359	313	325	333	246	2,592
Paid to date ($ 000s)	270	708	859	801	736	667	653	637	276	5,606
Medical										
Number of claims	717	989	1,053	936	858	857	831	902	801	7,944
Paid to date ($ 000s)	75	81	91	96	95	116	109	126	111	900
Total										
Number of claims	843	1,244	1,353	1,271	1,217	1,170	1,156	1,235	1,047	10,536
Paid to date ($ 000s)	345	789	950	897	831	783	762	762	386	6,506

10 largest claims

Claim Number	Cover Year	Claim Status	Injury Description	Paid to date $000s	Est OS $000s	Est Total $000s
118565	2007	Open	Sprain Lumbar Spine	63	85	148
71103	2003	Closed	Sciatica	126	0	126
61573	2002	Closed	Disorders of the Sacrum	112	0	112
76027	2003	Closed	Sprain Cervical Spine	82	0	82
82713	2004	Closed	Contusion Elbow/Forearm	82	0	82
94702	2004	Closed	Sprain Shoulder/Arm	77	0	77
93910	2004	Closed	Sprain Wrist	76	0	76
116965	2006	Open	Sprain Cervical Spine	55	16	70
73690	2003	Closed	Fracture Skull	64	0	64
60172	2002	Closed	Sprain Lumbar Spine	55	0	55

Open Claims Summary as at 31 March 2009

Cover Period	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Number of claims	0	0	0	0	2	2	5	26	123	158
Paid to Date ($ 000s)	0	0	0	0	32	76	101	191	137	537
OS Est ($ 000s)	0	0	0	0	13	28	101	117	329	589

Nature of Injury

Diagnosis	Number of Claims	Estimated Total Cost $000s	Estiamted Average Cost $
Sprain Lumbar Spine	1,333	828	621
Sprain Shoulder/Arm	543	623	1,148
Sprain Rotator Cuff	286	475	1,661
Sprain Cervical Spine	708	442	624
Sprain Wrist	280	236	841
Carpal Tunnel Syndrome	109	218	1,999
Lateral Epicondylitis	168	205	1,223
Teno/synovitis	160	151	946
Sprain Hip/Thigh	222	150	678
Contusion Knee / Lower	401	148	370
Sciatica	30	147	4,892
Rotator Cuff Syndrome	85	145	1,708
Tendonitis Limb	152	144	947
Sprain Forearm	185	135	727
Disorders of the Sacrum	5	134	26,772
Sprain Knee/Leg	167	132	789
Sprain Thoracic Spine	445	128	287
Low Back Pain	292	127	433
Sprain Ankle	450	114	253
Other	4,515	2,413	n.a
Total	10,536	7,095	673