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MELVILLE JESSUP WEAVER
CONSULTING ACTUARIES
Towers Watson Alliance Partner

October 2011

ACC – Levy rates for 2012/13

The final levy rates for the 2012/13 year were announced on October 12, at the same time as the release of the ACC's Annual Report for 2011. The final rates are the same as the consultation rates announced back in July.

In this newsletter we detail the new rates along with our comments and observations. The newsletter is based on the content of the Consultation Documents and the ACC Actuarial Pricing Document released in July. We have also included some interesting charts taken from the ACC Annual Report in the Appendix.

Key features of the final rates include:

- Significant reduction in the average levy rates for the Work and Earners' Accounts
- A major reduction for the Residual Claims Levy from the existing 41 cents per $100 liable earnings to 31 cents
- No change to the overall Motor Account levy.

The final levy rates

There have been major reductions in the average levy rates for the Work and Earners' Accounts, while the combined average levy for Motor Account is unchanged for 2012/13.

The tables below summarise the final levy rates for the three accounts.

Work Account ($ per $100 liable earnings)

	Current	Residual	Combined
2011/12	1.06	0.41	1.47
2012/13	0.84	0.31	1.15
Increase	-21%	-24%	-22%

Earners' Account ($ per $100 liable earnings incl GST)

	Current	Residual	Combined
2011/12	1.95	0.06	2.00
2012/13	1.66	0.05	1.70
Increase	-15%	-18%	-15%

Motor Account ($ per vehicle excl. GST)

	Current	Residual	Combined
2011/12	$234	$100	$335
2012/13	$257	$77	$335
Increase	10%	-23%	0%

Accredited employers

The good news for accredited employers is the major reduction in the residual claims account levy at 24% on average.

Against this:

- The cost of stop loss cover has increased for some employers (and reduced for others).
- The administration fee and the fees for Primary health costs and Bulk funded health costs have all increased – the total increase being 21%.

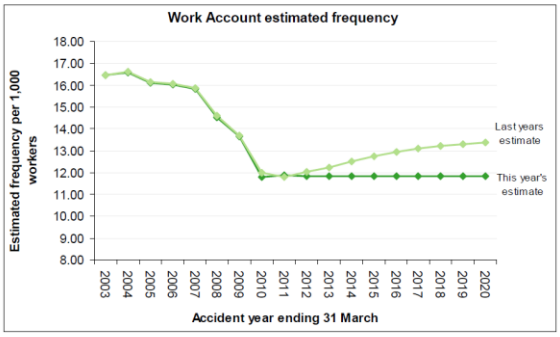
Why the major changes to the levy rates?

There are three reasons:

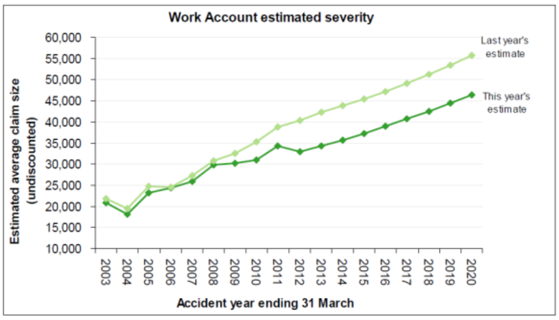
- Improving claims experience
- Revised funding policy
- Better than expected investment returns.

Improving claims experience

The improvement in both claims frequency and severity is illustrated by the two charts below for the Work Account.



By 2020 the claims frequency is projected to be 10% less than that projected in 2010.



By 2020 the cost of the claims is projected to be 20% less than that projected in 2010.

The revisions to the cost of claims pre 2011 allow for the expected improvement in the rehabilitation rates and costs of these claims which have already occurred.

The improvement in claims experience is similar for the Motor Vehicle Account while the results for the Earners Account show a smaller reduction in the claims frequency rate but a greater reduction in the cost of claims (severity).

Revised funding policy

The funding policy has changed again this year as it has done every year for some time. While always looking to achieve a future satisfactory funding level the policy is also aimed at achieving a level levy rate for the future and takes full account of the time when the residual levy is no longer collected.

Our summation of the key changes is:

- While the future cost of claims and the future reserves are based on the risk free interest rate, allowance is now made for the future return ACC expects to earn on its investments. As this return is higher than the discount rate the impact is to reduce the levy rate.
- Ignoring any funding adjustment the levy rate for the 2012/13 year is determined on a best estimate basis of the expected claim cost and incorporates the expected future investment returns. The impact is to reduce the levy rate
- A risk margin for the total account now applies and the funding required to achieve the set funding target is a "separate" addition to the levy rate. While the levy rate on its own reduces, the total funding adjustment will depend on the funding target and current position of the Account.
- The funding target is the mid-point of a wide range and the levy rate can be adjusted to meet this target over a flexible period of time. On its own the impact of the new target is to increase the levy rate.

We are not able to quantify the rates if the previous policy had still applied but we suspect that the impact of the new policy is to reduce the rates significantly.

The target funding bands for each Account are shown in the table below:

Account	Target funding band		
	Selected mid-point	Lower boundary	Upper boundary
Work	117.5%	100%	140%
Motor Vehicle	116.0%	100%	140%
Earners'	115.5%	100%	135%

Estimated cost of claims

The table below compares the estimated cost of claims for the three Accounts for the 2011/12 and 2012/13 years as per the 2010 and 2011 Consultation Documents (CDs). The first two columns show the costs for the 2011/12 year based on the 2010 CD and as updated in the 2011 CD.

	2011/12		2012/13	
Account	2010 CD	2011 CD	2011 CD	Increase
Work	566	442	447	-21%
Earners'	1,262	936	991	-21%
Motor	485	374	388	-20%

We see that the estimated cost of claims for the 2011/12 year has reduced from that originally estimated in the 2010 CD by around 20% across all three Accounts. Looking forward to 2013 the costs for the Work and Motor Accounts remain fairly stable based on current forecasts while the costs for the Earners Account increase by 6%.

The tables below summarise the change in the components of the levy from the 2010 CD to the rates published in the 2011 CD. The rates for the 2010 CD do not allow for the final rates approved by the Minister.

Work Account

	2011/12		2012/13	
	2010 CD	2011 CD	2011 CD	Increase
Cost of claims	0.71	0.59	0.59	-17%
Scheme costs	0.21	0.19	0.17	-19%
Funding adj.	0.07	0.19	0.00	-100%
Incentive prog.	0.07	0.09	0.08	14%
Total	1.06	1.06	0.84	-21%

The table illustrates:

- The 17% reduction in the cost of the claims over the last year (59 cents v a v 71 cents) and how this increased the funding adjustment from 7 cents to 19 cents which has resulted in an increase in the reserve levels.
- The elimination of any funding adjustment in the 2012/13 rates. As shown later the reserves increase significantly over the period to 2019 without the need for a specific funding adjustment.

Earners' Account

	2011/12 2010 CD	2011/12 2011 CD	2012/13 2011 CD	Increase
Cost of claims	1.25	0.97	0.99	-21%
Scheme costs	0.37	0.27	0.27	-27%
Funding adj.	0.11	0.49	0.18	64%
Total	1.73	1.73	1.44	-17%

The table illustrates:

- The 21% reduction in the cost of the claims for the 2011/12 year (99 cents cf. $1.25) and how this increased the funding adjustment from 11 cents to 49 cents which has resulted in an increase in the reserve levels
- A funding adjustment is still required for the account amounting to 18 cents.

Motor Account

The table below shows the breakdown of the current levy portion and ignores the residual portion.

	2011/12 2010 CD	2011/12 2011 CD	2012/13 2011 CD	Increase
Cost of claims	$152	$119	$122	-20%
Scheme costs	$23	$20	$21	-8%
Funding adj.	$58	$94	$113	95%
Motorcycle safety	$1	$1	$1	26%
Total	$234	$234	$257	10%

The table illustrates:

- The 20% reduction in the cost of the claims over the last year which again led to a greater than expected increase in the funding adjustment from a projected 58 cents to 94 cents.
- The need for a substantial funding adjustment for the 2012/13 year due to the underfunding in the account.

The residual levy is set at $77 and is the rate needed to fund the pre 1999 claim costs.

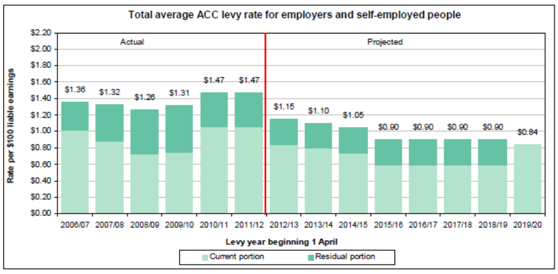
Work Account - Pre 1999 claim costs

The Accident Compensation Amendment Act 2010 changed the way the residual levy for the Work Account was calculated. The pre 1999 liability was calculated and 'locked in' as at 30 June 2009 and the levy rate of $0.31 was proposed in last year's Consultation Document as being the annual rate required to fund the liability by 2019. While the final rates adopted for 2011/12 held the residual levy rate at $0.41, ACC again proposed the rate of $0.31 for 2012/13, which has now been accepted by the Government. This will be welcome news for accredited employers.

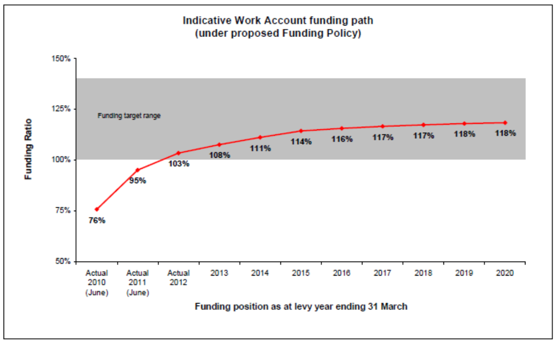
Projected levy rates and funding path

Work Account

The projected levy rates gradually reduce for the next four years before being held flat through to 2018/19. The projected levy rate for 2019/20 is $0.84 compared to $0.97 estimated in last year's Consultation Document.



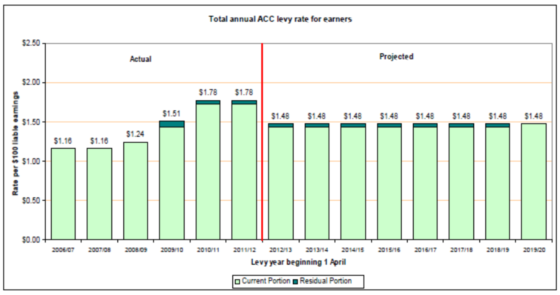
The funding position of the Work Account has improved significantly with full funding (100% funding ratio) expected to be reached by March 2012, four years ahead of the projected position in last year's Consultation Document. The projected funding path is shown in the graph below:



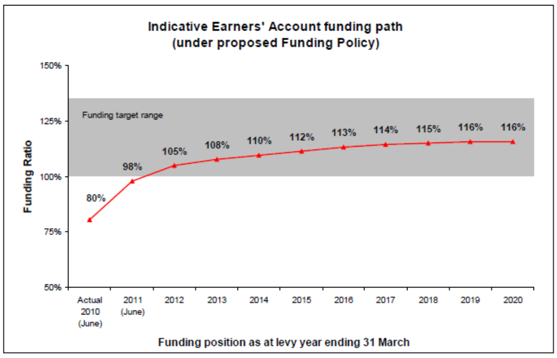
The increase in the funding ratio is primarily due to an expected investment return greater than the rate applied to discount the reserves.

Earners' Account

As for last year's consultation, the projected levy remains flat through to 2019/20. But the levy rate is now $1.48 cents compared to the projected $1.90 cents in 2010. These figures are exclusive of GST.

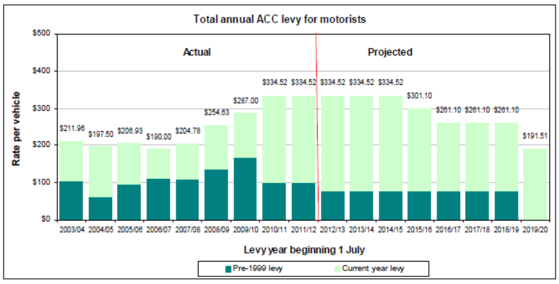


Similar to the Work Account we see that the funding position of the Earners' Account has improved markedly since last consultation. Full funding of the Earners' Account is expected to be achieved by 2012 – three years ahead of that predicted in last year's Consultation Document.

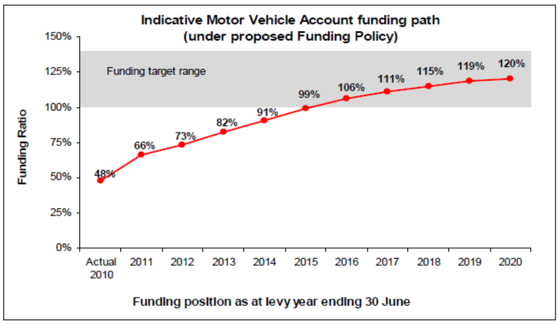


Motor Account

The greatest deficit remains in the Motor Account which is projected to be 73% funded by June 2012. This has led to the 95% increase in the funding adjustment component of the proposed levy rate for 2012/13. Full funding is expected to be reached by June 2016 with levy rates decreasing from then in step changes through to 2019/20.



The chart below shows the significant deficit as at 30 June 2010 at only 48% funded.



Partnership Programme

There have been no changes to the structure of the ACCPP however there will be small increases in the administration fee, Primary Health costs and bulk funded health costs.

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

APPENDIX

ACCPP fees & discounts as % of standard levy

		Current 2011/12	Proposed 2012/13
Admin fee		2.1%	2.7%
Primary health costs		1.2%	1.3%
Bulk funded health costs		2.4%	2.9%
PDP discounts	1 year	50.4%	50.0%
	2 year	58.2%	58.5%

There have been no changes to levels of stoploss and High Cost Claims Cover available. Overall, i.e. across all classification units, the rates have not changed however there has been some movement with increases in the rates for some classification units being offset by decreases for others.

The tables below illustrate the 2011/12 and the proposed 2012/13 stoploss and HCCC rates. The figures are taken from the ACC Calculator for an employer with liable earnings of $200m, 15% WSMP discount, paying the average standard levy of $1.06 for 2012/13 ($1.25 for 2011/12).

Minimum Stoploss	**nil**	**HCCC Level $750k**	**$1.5m**	**$2m**
2011/12				
Stoploss	48,323	40,800	37,613	42,585
HCCC	0	33,788	18,488	14,025
Total	48,323	74,588	56,100	56,610
2012/13				
Stoploss	54,828	31,992	49,119	n.a
HCCC	0	44,719	16,115	n.a
Total	54,828	76,711	65,234	n.a
% change	13%	3%	16%	n.a

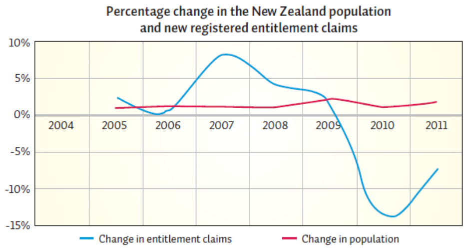
Maximum Stoploss	**nil**	**HCCC Level $750k**	**$1.5m**	**$2m**
2011/12				
Stoploss	10,965	26,648	5,355	3,188
HCCC	0	33,788	18,488	14,025
Total	10,965	60,435	23,843	17,213
2012/13				
Stoploss	13,439	13,320	7,850	7,969
HCCC	0	44,719	16,115	10,288
Total	13,439	58,039	23,965	18,256
% change	23%	-4%	1%	6%

Extracts from the ACC Annual Report 2011

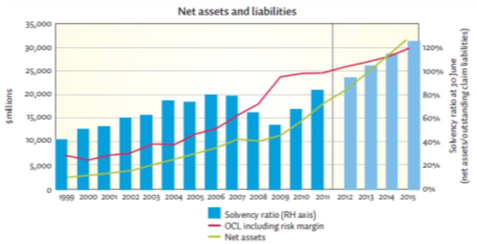
The following charts have been sourced from the ACC Annual Report 2011. Page numbers are included for reference.

New weekly compensation claims *page 16*

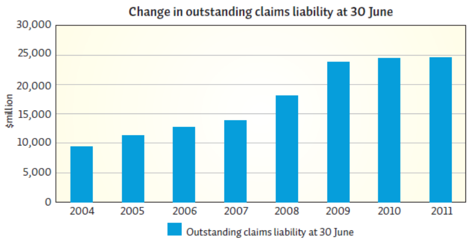
New weekly compensation claims	2010–11 Actual	2009–10 Actual	Change
ACC total	**53,857**	**58,182**	**-7.4%**
Work Account	16,627	18,025	-7.7%
Motor Vehicle Account	2,963	3,177	-6.7%
Earners' Account	33,681	36,344	-7.3%
Non-Earners' Account	77	59	30.5%
Treatment Injury Account	509	577	-11.8%



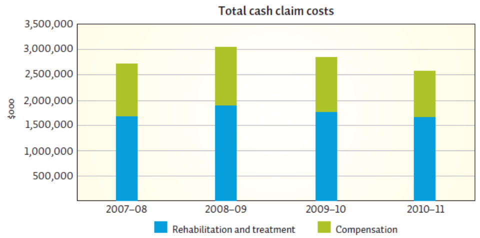
Net assets and liabilities *page 20*



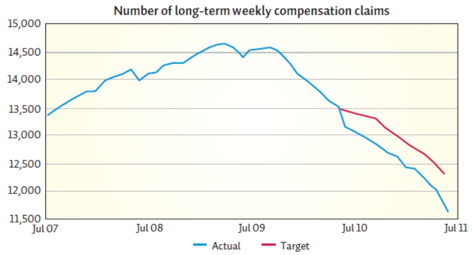
Change in outstanding claims liability at 30 June *page 21*



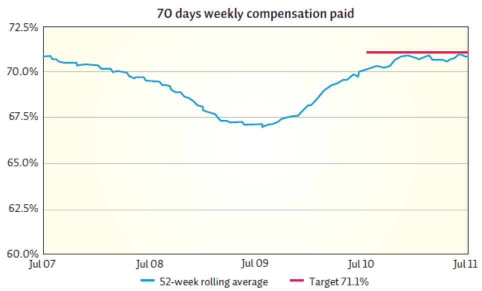
Total cash claim costs *page 25*

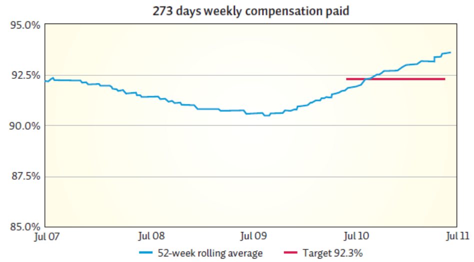


Number of long term weekly compensation claims *page 27*



Rehabilitation rates *pages 28-29*

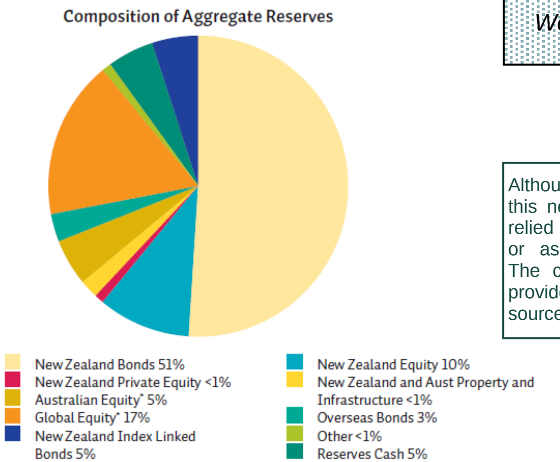




Reduction in claims incidence *page 30*

	2010–11 Result	2010–11 Target
Reduction in workplace injuries Number of workplace entitlement claims in five priority areas (agriculture, construction, forestry, manufacturing and health) and discomfort and pain injuries	4.9% (6.9% worse than target)	2.0% reduction (against forecast)
Reduction in motorcycle injuries 12-month rolling claim rate (accepted new entitlement claims in the Motor Vehicle Account) per 10,000 registered motorcycles	118.3 (13.6 claims better than target)	Below the 2008–09 average of 131.89 (per 10,000 registered motorcycles)
Reduction in sporting injuries New entitlement – targeted claims in rugby, soccer, netball and rugby league	-6.7% (4.7% better than target)	2.0% reduction (against forecast)

Investments – Composition of reserves *page 44*



* *Global Equity and Australian Equity slices include effective exposure to equity markets obtained through futures contracts. However, this pie chart has not been adjusted for the effective exposure to bond markets arising from the use of interest rate derivatives as an asset allocation overlay.*

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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