ACC

Costing the Partnership Programme levy options for 2014/15

MJW Topix

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- Summary of the Work Account rate reductions and impact on Accredited Employers
- Recommendation on where to from here.

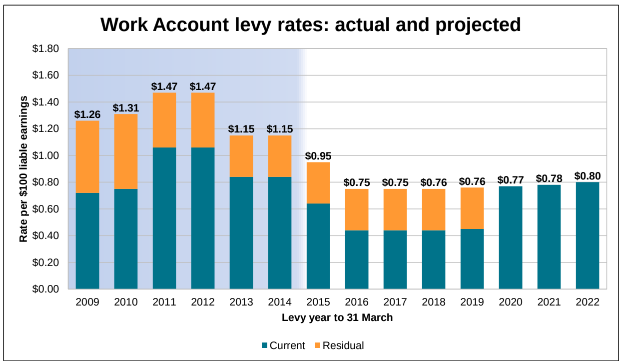
Introduction

The current standard levy rates for the Work Account for the 2014/15 year have fallen on average 24% - a major reduction. This is on top of an average 21% fall for the 2012/13 year. For the intervening year the Government choose to leave the rates unchanged.

The major reduction requires Accredited Employers to review their options under the ACCPP and also review and consider whether they should switch out and pay the full standard levy.

Reduction in rates

The chart below, taken from the recent Work Account consultation document, illustrates the major reduction to the current rates since the 2012 year.



The reductions are due to good recent claims experience by the standard employers, good investment results from ACC, changes in the funding basis and also the surplus now arising from the residual claims account component of the total levy. All the evidence suggest that the average residual claims levy of 31 cents per $100 liability is now significantly in excess of what is required to fully fund the cost of the pre 1999 work claims and the pre 1992 non work claims.

Impact of the levy reduction

The major fall in the levy since 2012 poses challenges to the Accredited Employers and we have considered three cases to illustrate. The examples are taken from three actual employers but with the level of the figures changed to hide their identity. All three examples are shown in some detail in the Appendix. The costs shown are the levy payments made to ACC, the claims costs as paid by the Accredited Employer and the costs paid by the employer to administer their claims. Any in-house costs a standard employer would incur are not shown.

Below we summarise the result for the three employers in a chart which compares the relative values of the three options over the two cover periods. In each case to facilitate the comparison the analysis takes the standard levy paid by the employer in 2012 as $1,000,000.

	2011/12 cover year			2014/15 cover year		
Employer	FSCP %	PDP2 %	SL %	FSCP %	PDP2 %	SL %
1	498	745	1,000	535	574	529
2	929	1,067	1,000	1,071	1,028	747
3	508	792	1,000	570	578	529

Commenting on the results we see:

- For the 2012 cover year the FSCP was unquestionably the viable option for Employers 1 and 3 with costs of $498,000 and $508,000 respectively. For Employer 2 with estimated costs of $929,000 the direct cost argument was less obvious.
- However come the 2015 cover year the position has changed with the standard levy now between $747,000 and $529,000. There is some small cost increase in the FSCP reflecting in the main the normal increase in claims costs.
- The relative attraction of the PDP2 option has increased for Employers 1 and 3 with the costs ranging from $574,000 to $578,000. This improvement reflects the flow through arising from the reduction in the standard levy.

Where to from here?

Which levy option to choose for the 2015 cover year?

Full Self Cover Plan (FSCP) Many employers choose to join the ACCPP and become an accredited employer as they want themselves to manage an employee's rehabilitation. For all the right reasons they want to be in control of this process which ensures that they know when their people will return to work and can allow for this when running the business. There are cost advantages in this which are not possible to illustrate in the examples in the Appendix.

As an Accredited Employer knows being in the FSCP means they are liable for all the potential claims costs incurred. This is only limited by the insurance options available namely the compulsory stop loss and the optional high cost claims cover. There are then some risks involved in the FSCP to the employer. In the illustrated examples in the Appendix certain insurance options are illustrated.

Partnership Discount Plan (PDP) The PDP allows an employer to manage their claims for a 2 year period after the cover year itself. At the end of the period the claims are handed back to ACC who is responsible for the future management and all the costs from then on. It therefore offers an employer the advantages of managing its claims in the shorter term which inevitably means managing all but the really serious claims with no liability after the initial claims management period.

Standard levy Switching to the standard levy option will mean an employer steps back from the day to day active manage of the rehabilitation of their employees. The actual rate charged to an employer will be subject to the experience rating formula which could either increase or decrease the levy charged. The levy experience adjustment will increase to upto 75% and depends on two factors:

- how the employer's peer group experience compares to all employers in the levy risk group, and
- how the employer's own experience compares to its peer group experience.

Recommendation

It is recommended that an employer:

- asks ACC to provide an indication of their experience rating costs under the standard levy for the 2015/16 year, and
- obtains an assessment of the likely costs of the FSCP and the PDP options.

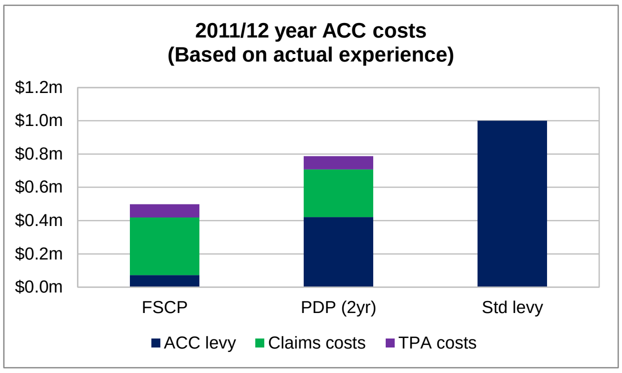
Based on the analysis illustrated in this newsletter employers need to carefully review their options for the 2015 cover year and seek independent advice.

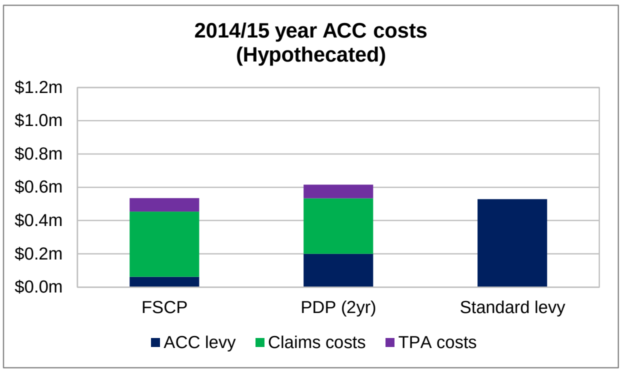
Appendix

Example 1

2011/12 ACC costs	FSCP $000s	PDP (2yr) $000s	Std levy $000s
ACC levy net WSMP	72	422	1,000
Claims costs	347	286	-
TPA costs	79	79	-
Total costs	498	787	1,000

2014/15 ACC costs	FSCP $000s	PDP (2yr) $000s	Standard levy $000s
ACC levy net WSMP	61	200	529
Claims costs	392	333	-
TPA costs	82	82	-
Total costs	535	615	529





The reduction in the standard levy rates for the 2015 cover year sees very similar immediate costs for the 3 levy options illustrated. In contrast the position in favour of the ACCPP options was clear in 2012.

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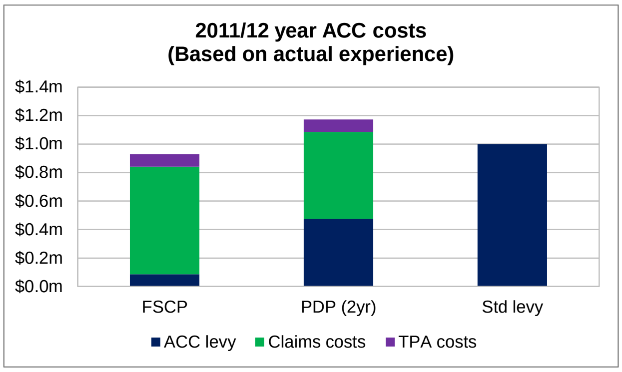
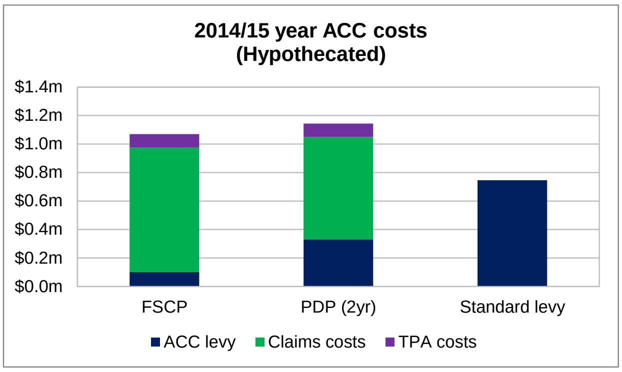
Example 2

2011/12 ACC costs	FSCP $000s	PDP (2yr) $000s	Std levy $000s
ACC levy net WSMP	86	475	1,000
Claims costs	755	611	-
TPA costs	88	88	-
Total costs	929	1,173	1,000

2014/15 ACC costs	FSCP $000s	PDP (2yr) $000s	Standard levy $000s
ACC levy net WSMP	101	330	747
Claims costs	876	720	-
TPA costs	93	93	-
Total costs	1,071	1,144	747



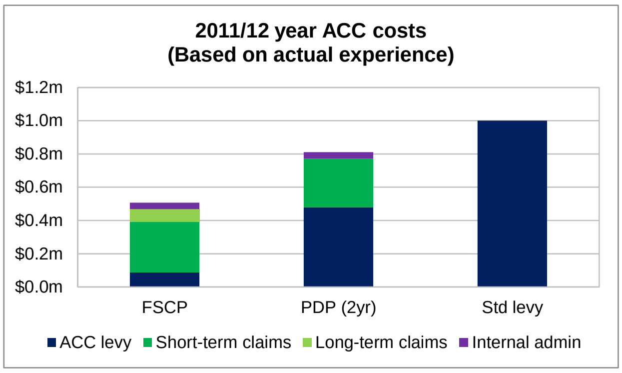


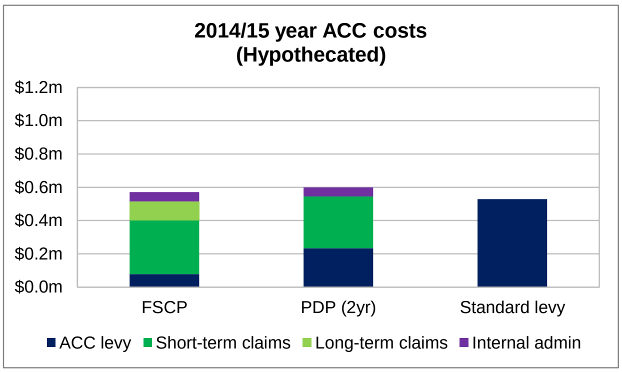
The standard levy option in 2015 now shows significant cost savings compared to the slight immediate cost advantage to the FSCP option in 2012.

Example 3

2011/12 ACC costs	FSCP $000s	PDP (2yr) $000s	Std levy $000s
ACC levy net WSMP	87	480	1,000
Claims costs	381	292	-
TPA costs	40	40	-
Total costs	508	811	1,000

2014/15 ACC costs	FSCP $000s	PDP (2yr) $000s	Standard levy $000s
ACC levy net WSMP	77	233	529
Claims costs	324	311	-
TPA costs	55	55	-
Total costs	456	600	529





The picture is similar to Example 1 with the immediate cost advantages of the FSCP option in 2012 now overshadowed in 2015 by the similar immediate costs for all 3 options.