# ACC Accredited Employer Programme

## Removal of Workplace Safety Management Practices

MJW Topix

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### Accredited Employers Programme (AEP)

The Accredited Employers Programme (AEP) allows an employer to act on behalf of ACC, managing workplace injuries for their employees and providing entitlements under the Accident Compensation Act 2001. The AEP offers two plans; full self-cover plan (FSCP) and partnership discount plan (PDP). Under both plans, the employer pays the ACC claims in place of ACC.

Under the FSCP, the employer takes full financial responsibility for work related injuries arising from a year of cover. The employer may pre-purchase cover for large claims and cap the overall claims costs for the year. The employer manages the claims for the selected management period. At the end of the selected management period ACC takes over. Any open claims at that point are handed back to ACC with a payment from the employer to commute future costs.

Under the PDP, the employer takes financial responsibility and injury management for employees who suffer work-related injuries for the selected management period only. At the end of the management period, the employer's responsibilities end. ACC takes over financial and management responsibilities of claims from the cover year with no commutation payment.

### Workplace Safety Management Practices

As part of the ACC regime, employers participate in the Workplace Safety Management Practices (WSMP).

WSMP has been in place since 2000 in New Zealand. It was an incentive offered by ACC to encourage safety in the workplace by awarding premium discounts to employers who meet ACC's workplace safety practices. Discounts ranged from 10% to 20% discounts on levy.

The WSMP discount on standard ACC levy has ceased with effect from 1 April 2019.

WSMP has a negligible impact on FSCP and a moderate impact on PDP. In respect of these employers, the WSMP discount will cease with levy calculations made after 1 July 2019, effectively the 2020/21 levy year.

The WSMP programme is being discontinued because it no longer aligns with the health and safety legislation, whose intent was to reduce injuries and injury claims.

The average ACC levy rate has decreased by 6.9% but the removal of the WSMP discount (10% - 20%) will see an overall increase in annual levy costs for most large employers.

Some industries are facing increasing levy rates. Combined with the removal of the WSMP discount, they will incur significantly higher total costs. These industries include, Road Freight Transport, Road and Bridge Construction and Waste Management.

### ACC Changes

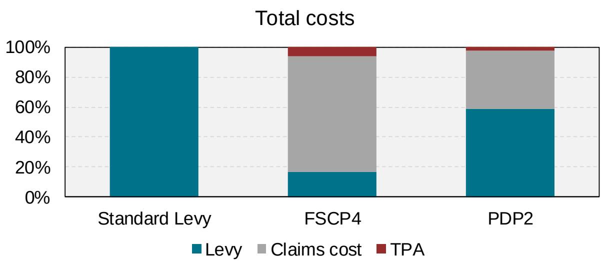
ACC is changing the way they manage claims. They will be moving from dedicated Case Managers assigned to large employers to a more automated approach which will include an element of *self-management* for time off work claims.

Additionally, ACC is increasing the maximum experience rating penalty (from 75% to 100% of the standard levy). The maximum discount will remain unchanged at 50%.

This newsletter focuses on illustrating the financial and non-financial implications of the removal of WSMP, the changes to the experience rating, and the relative impact this has on being a member of the AEP against paying the standard levy.

### Total cost break down

The chart below shows the allocation of the total costs for the three alternatives; standard levy, FSCP and PDP.




Claims cost and third-party administration (TPA) costs are higher in the FSCP than PDP. In the FSCP, employers have the responsibility to manage claims for a longer period (four years) compared to the PDP (one or two years). The corollary is that the PDP is accompanied by a larger levy payable to ACC.

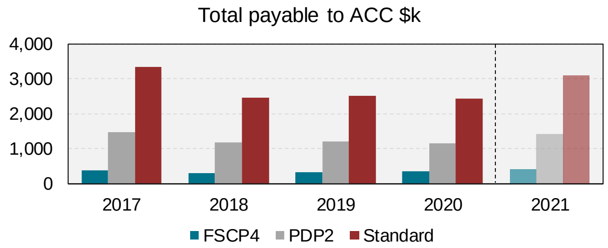
For any employer, the purely financial question will be whether the likely costs from the AEP will be less than simply paying the standard levy.

### Removal of WSMP

In order to illustrate the impact, we have modelled a hypothetical road freight company with liable earnings of $300m. For the AEP calculations, the employer is assumed to purchase high cost claims cover of $1m and a stop loss limit of 160% of risk. The WSMP discount level is set to 20%.

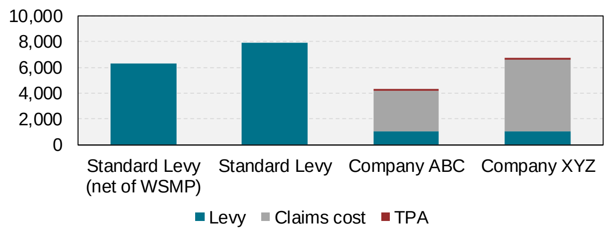
Road freight levy will increase from $2.34 (2019) to $2.46 (2020/2021).

The increase in levy rate and removal of the WMSP discount has resulted in a sizable increase in the standard levy from 2019 to 2020, while there has been minimal increase in the FSCP. We can see the difference in the chart below.




## Two road freight companies

The chart below illustrates two ‘equivalent’ companies who are considering joining the FSCP. Company ABC has a relatively low expected claims cost while Company XYZ has a higher expected claims cost. The FSCP levies and TPA costs are assumed to be the same. Their overall financial costs are compared to the standard levy payable both with and without the WSMP.




Company ABC would clearly be financially better off joining the AEP, even including the WSMP. Company XYZ is in a more financially neutral position although the removal of the WSMP would suggest that financial savings can be made. Company XYZ may possible be better off in the AEP purely due to non-financial benefits or the ability to significantly reduce risk.

The WSMP will see a small increase in the FSCP levies paid to ACC, as some of the levy components incorporate the WSMP discount. However, this effect is small as the FSCP levy is small.

## Other considerations

*Return to work*: Studies have shown that return to work rates are superior for employers that manage their own claims. Thus, the employee returns to work more quickly than if managed by ACC. This leads to lower ACC claims costs, lower staff replacement costs and better work outcomes for the employee.

*Experience rating*: ACC applies discounts and penalties to the standard levy depending on the claims experience of the employer. The maximum penalty will be 100% from April 2020 (up from 75%) which means that a poor year of claims experience could result in the employer paying 200% of the standard levy in the following year.

*Insurance options – High Cost Claims Cover*: Under the AEP employers may purchase HCCC to limit their exposure to single events to as low as $250k. An event could cause one claim or multiple claims.

*Insurance options – Stop Loss*: Employers may also purchase Stop Loss insurance which will limit their total costs from a cover year to as low as 141% of the standard levy – considerably lower than the 200% worst outcome under the standard levy.

*Financial risk exposure*: Under the AEP, poor claim experience affects that year of cover only. Under the standard levy, bad events or bad years may contribute to penalties being applied for the following three-year period.

## Summary

Large employers with ACC levies greater than $100k may choose to participate in the AEP.

There are a number of non-financial reasons why this may be beneficial to the company including the ability to manage staff back to work and signalling to staff a commitment to staff welfare.

From a purely financial point of view, the removal of the WSMP will produce a more compelling argument for employers to join the AEP. In terms of savings, and reducing financial risk exposure for employer

Any employer considering this should seek qualified professional advice to ensure that this will be an appropriate solution.

## Further information

If you want to find out more information about this note or how MJW can help you with your participation in the AEP, then please contact either of the authors below.

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