

Work Levy Rates for Employers and Self-Employed People

1 Background

- 1.1 Work Account levies are set by regulation, under the authority of section 169 of the Injury Prevention, Rehabilitation, and Compensation Act 2001.
- 1.2 Residual Claims Account levies are set by regulation, under the authority of section 193 of the Injury Prevention, Rehabilitation, and Compensation Act 2001.
- 1.3 The levy year under review is 1 April 2010 to 31 March 2011.
- 1.4 The current combined average levy rate for 2009/10 is \$1.31 for every \$100 of earnings. This comprises a work levy rate of \$0.75 and a residual levy rate of \$0.56.

2 Levy setting principles

- 2.1 ACC has a funding policy that is applied to each levy Account. These policies aim to balance the financial sustainability of the Scheme and the management of levy stability over time, taking into account equity considerations and forecast uncertainty.
- 2.2 When considering 2010/11 levy proposals ACC has adopted the following guidance;
 - **Not anticipate future improvements** – it is considered financially prudent not to factor in the estimated impact that cost containment initiatives may have on Scheme costs as there is considerable forecast uncertainty. Future levy proposals will include these improvements once these initiatives actually demonstrate consistent and sustainable performance.
 - **Sustainability of short-term trends and outcomes** - while recent claim number and rehabilitation outcome trends are improving, short-term gains will not be anticipated until they are proven and showing consistent results.
 - **Solvency position will not be allowed to decrease further** – given the current solvency position of the Scheme it is considered irresponsible to deliberately allow for further decreases in the solvency position.

3 Submission analysis

- 3.1 101 submissions were received relating to the Work Account and Residual Claims Account. ACC received submissions from all the major parties who contribute regularly such as Business New Zealand and Federated Farmers, as well as a number of new submitters.
- 3.2 Common themes in the submissions were:
 - that the proposed levy rate increases will place an economic burden on employers
 - that there is an expectation that the Amendment Bill currently with the Select Committee will result in final levy rates different from those that ACC has consulted on
 - that the proposed levy increases will increase incentives for employers to join or remain in the Partnership Programme.
- 3.3 A number of other submissions made requests seeking a reduced prudential/risk margin and a revision to employer classification of their own business or industry. Several submitters requested a review of the basic funding and levy collection principles of the ACC Scheme.

3.4 ACC has reviewed all submissions or issues raised that are within scope to consider while formulating its 2010/11 levy recommendations for the Work and Residual Claims Accounts.

4 Work and Residual Claims Accounts 2010/11 levy rates

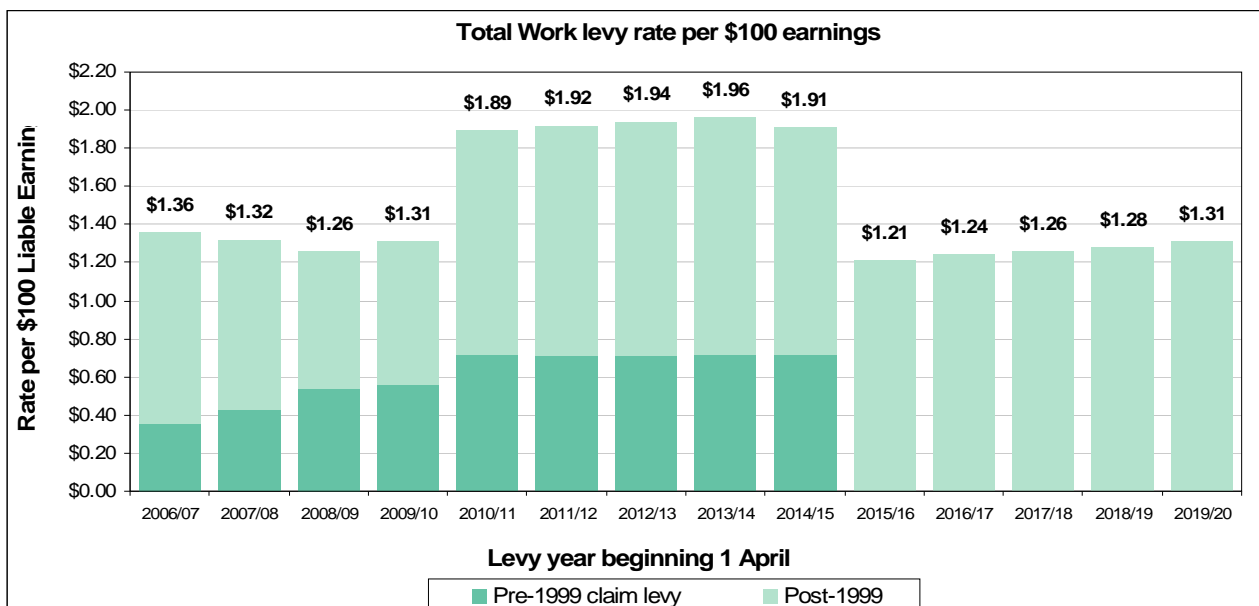
Combined average work levy rates for 2010/11

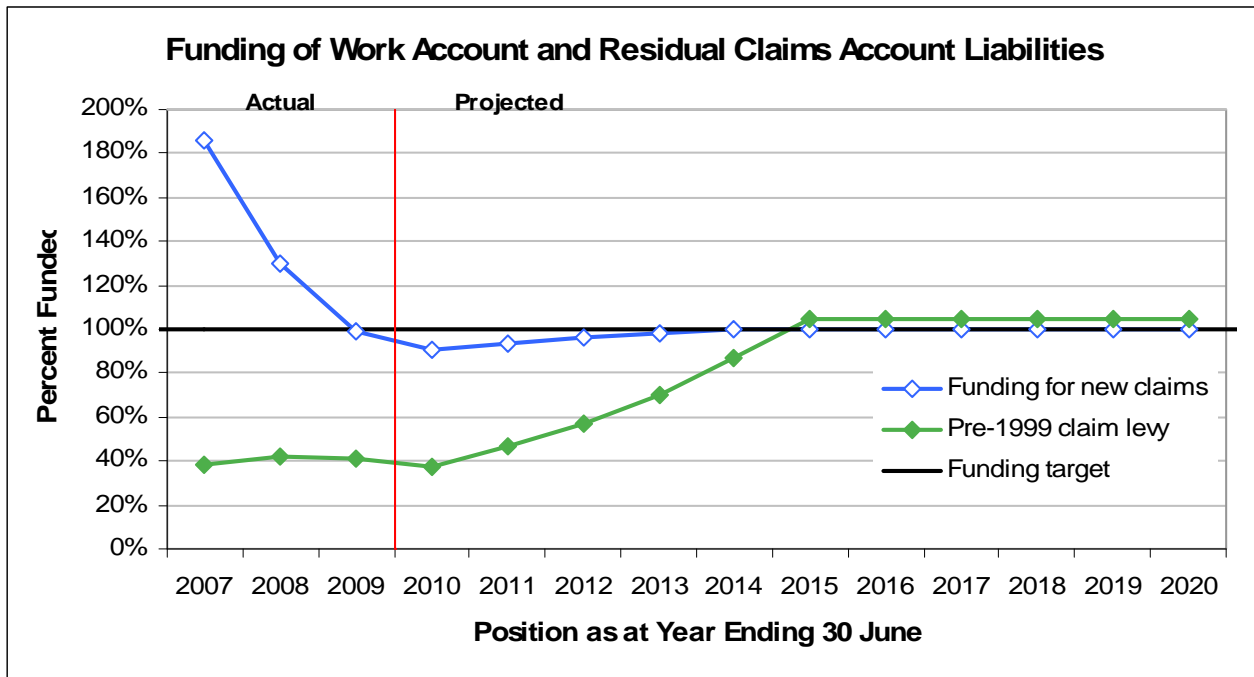
- 4.1 The following table compares the current 2009/10 rates with those used during the 2010/11 levy setting consultation and those now recommended. These recommended rates comply with ACC's funding policy.
- 4.2 These rates do not include any impacts from the introduction of the IPRC Amendment Bill 2009. ACC's 2010/11 levy recommendations to the Minister for ACC must be based on the legislation currently in force and can not anticipate changes being passed.

	<i>Current 2009/10 rates</i>	<i>Proposed 2010/11 rates for consultation</i>	<i>Recommended 2010/11 rates</i>
Average levy for current year work claims	\$0.75	\$1.18	\$1.18
Average levy for pre-1999 work claims	\$0.56	\$0.71	\$0.71
<i>Combined average work levy rate (per \$100 liable earnings)</i>	\$1.31	\$1.89	\$1.89

4.3 The recommended 2010/11 combined average work levy rate has been maintained at the proposed rate of \$1.89 per \$100 liable earnings used during consultation with levy payers.

4.4 The following graphs show the historic and projected levy rates and resulting solvency position for the Work and Residual Claims Accounts based on the recommended 2010/11 levy rates and projected path to full funding. These projected levies maintain the full funded solvency position.





5 Levy classification units and levy risk groups

- 5.1 Changes to the levy risk group structure have been deferred until the 2011/12 levy consultation round.
- 5.2 ACC consulted only on the following two changes to classification unit descriptions. The result of these changes was to provide a suitable classification for entities that do not fit well within the current definitions.

CU number	Current CU name	Proposed CU name	Reason for change
36103	Electricity Line System Operation (excluding maintenance and operation)	Energy and Services Utilities Operation (excluding construction, maintenance and plant operation)	To provide an appropriate classification for utilities (other than electricity line operators) who subcontract all field operations
61231	Taxi Organisations (excluding those that provide taxi services)	Taxi and Other Vehicle Scheduling Operations	To provide an appropriate classification for organisations who operate in the same manner as a taxi booking office, but schedule van and truck movements

- 5.3 ACC has recommended that for the 2010/11 work levy, the 535 classification units are grouped into the same 117 risk groups as last year, and their relativities updated based on latest claims experience. In addition, ACC has recommended that for the pre-1999 residual claims levy, the 535 classification units are grouped into the same 41 risk groups as last year, and their relativities maintained.
- 5.4 The Employers' and Self-Employed Work Accounts were merged on 1 April 2007 into the Work Account. Since then ACC has been required to make an adjustment to the levy rates for each classification unit. These adjustments must be made until the beginning of the 2010/11 levy year, at which time the same levy rate must be charged for employers and self-employed people classified in the same industrial classification unit.

- 5.5 The average levy rates for employers and self-employed people have now been merged and the individual classification rates are the same for both groups. Individual rates for industry groups will be finalised once the Government has set the 2010/11 average Work Account levy rate.

6 Partnership Programme

- 6.1 ACC is required to consult with accredited employers in relation to administration fees, the health cost factors (bulk-funded public health care cost fee and primary health care claim management levy), the stop loss and high cost claim cover. These consultation requirements have been satisfied and no issues were raised that would require ACC to reconsider its 2010/11 proposals.
- 6.2 Adjustments of Accredited Employer levy discounts will be required to reflect any changes in the 2010/11 average work levy rate for standard employers. The final discounts will be calculated using the final classification unit levy rates for employers that result from the recommended 2010/11 average Work Account levy rate.
- 6.3 The minimum and maximum levels for stop loss cover and the levy rates for stop loss cover and high cost claims cover will also be calculated using the standard employer levy rates that result from the agreed average Work Account levy rate.

7 ACC Workplace Safety Discount programme

- 7.1 The Workplace Safety Discount programme is open to employers with 10 or fewer staff and self-employed people in sectors with the highest number of work-related injuries – agriculture, construction, fishing, forestry, motor trades, road transport and waste management.
- 7.2 The current programme entry criteria into the Workplace Safety Discount programme is either a maximum liable earnings figure for a small business of \$450,000 per annum or 10 or fewer fixed term employees (FTEs).
- 7.3 ACC has recommended that the current maximum liable earnings figure be increased to \$495,000. This increase is based on the March 2009 Quarterly Employment Survey, which shows that the average total weekly earnings have increased to \$950.62 (i.e. \$49,432.24 per annum, or \$494,322.40 per annum for 10 FTEs).

8 ACC CoverPlus Extra options

Ability to purchase 12 months' cover

- 8.1 The ACC CoverPlus Extra product allows self-employed people and non-PAYE shareholder-employees to choose an agreed level of weekly compensation payable for a work or non-work claim resulting in time off work. The cover period normally runs from 1 April to 31 March or part thereof each year.
- 8.2 To give customers more financial control and the ability to match their cover period with financial accounting years, ACC has recommended that customers are given the option of purchasing 12 months' cover from any date the customer chooses.

Ability to choose a stand-down period

- 8.3 Currently all customers default to a seven-day stand-down period after which the weekly compensation benefit becomes payable.

- 8.4 To give customers more financial control and the ability to match the financial resources available to them with the cover they require, ACC has recommended that customers be able to select stand-down periods for a maximum period of up to 90 days.

9 Use-of money interest rate

- 9.1 ACC is required to pay interest to employers where the difference between their estimated and actual work levy payable for any year is more than \$1,000.
- 9.2 The use-of-money interest rate is set by Regulation 47 of the Work Account Levies Regulations, and is currently set at 6%. As a regulated amount any change requires legislative amendment.
- 9.3 The use-of-money interest rate will be changed to reflect the interest rates in the current economic climate. ACC expects this to be set at a rate similar to the Reserve Bank of New Zealand 90-day bank bill rate as at 1 December 2009.
- 9.4 To improve flexibility and ensure that the interest rate is kept up-to-date, ACC will be looking at possible proposals to amend the IPRC Act to enable linking the use-of-money interest rate to a market benchmark (such as the Reserve Bank of New Zealand 90-day bank bill rate).