

# Levy Rates for Earners'

## 1 Background

- 1.1 The earner levy and earner residual levy are set by regulation, under the authority of section 219 of the Accident Compensation Act 2001.
- 1.2 The levy and residual levy year under review is 1 April 2010 to 31 March 2011.
- 1.3 The current composite rate for 2009/10 is \$1.5110, GST exclusive, for every \$100 of earnings (\$1.70 GST inclusive). This comprises an earner levy rate of \$1.4320 and an earner residual levy rate of \$0.0790.

## 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 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 Fourteen submissions have been received relating to the Earners' Account. This compares to only six responses received last year, but it is not unusual to receive low numbers. Most submissions for this Account are appended to those coming from large employers on the Work Account.
- 3.2 Common themes in the submissions received were:
  - objection to the increase, particularly during the current economic climate
  - proposals suggesting some form of risk rating should be introduced to move costs to those undertaking higher risk activities
  - recommendations to change the approach to financing the Scheme e.g. a move away from full funding.
- 3.3 ACC has reviewed all submissions or issues raised that are within scope to consider while formulating its 2010/11 levy recommendations for the Earners' Account.

## 4 Earners' Account 2010/11 levy rates

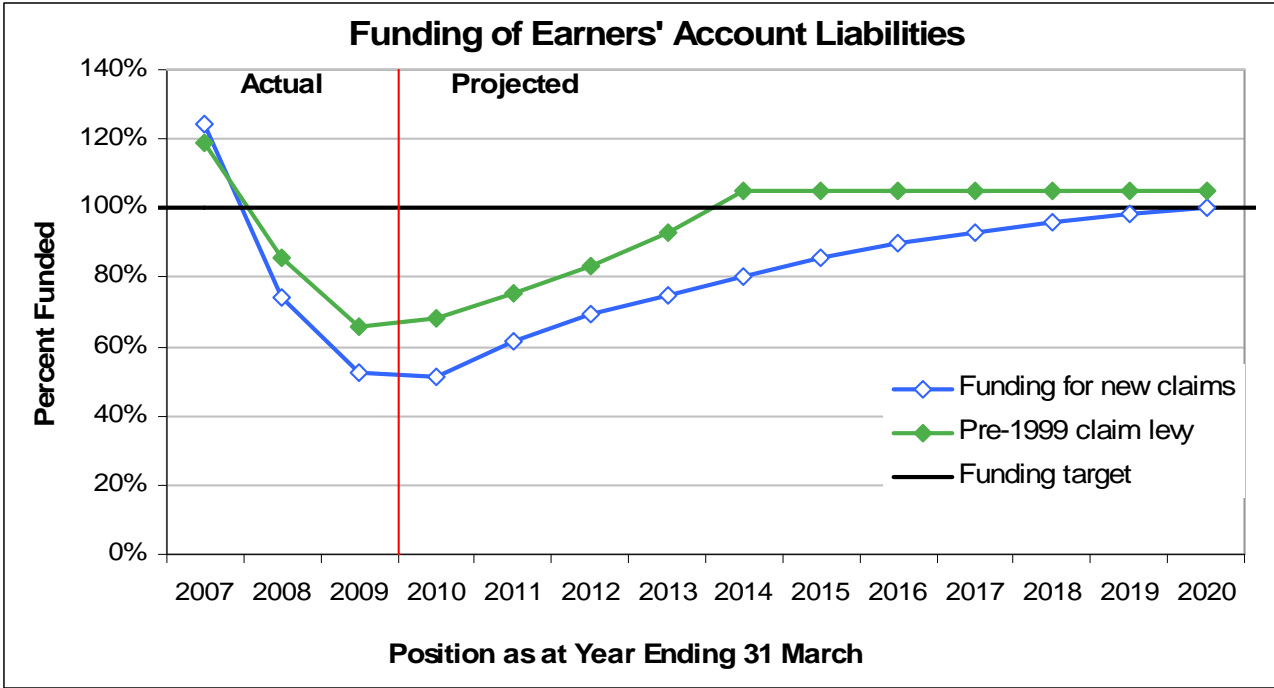
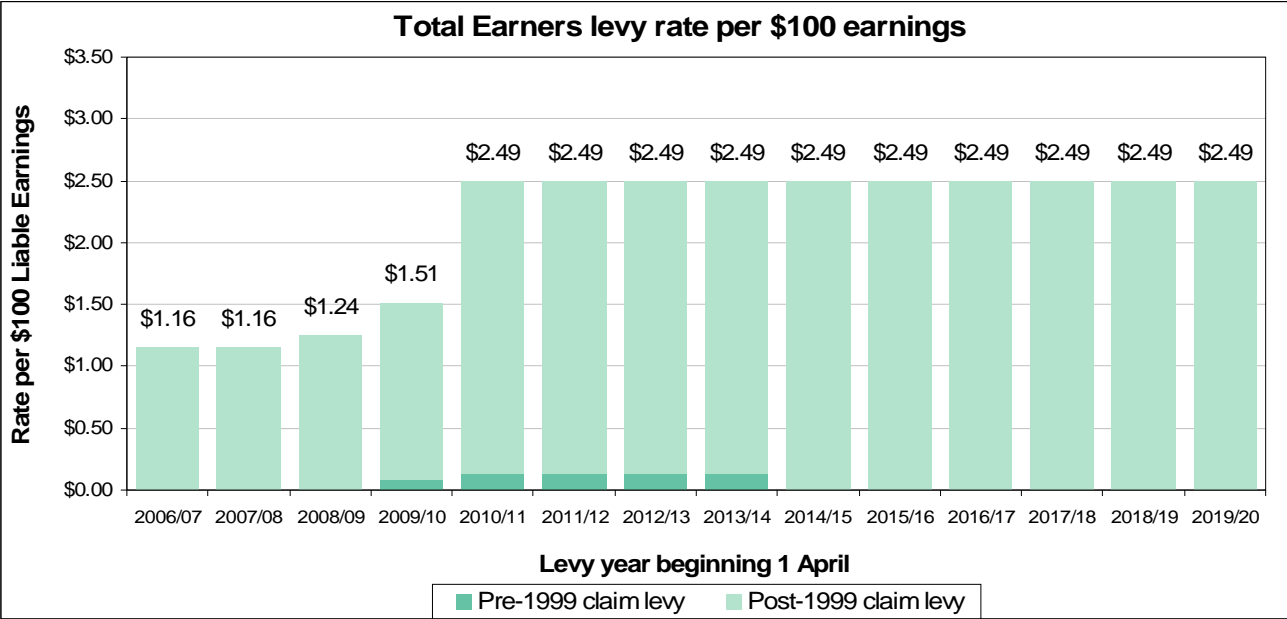
### Composite earners' non-work levy rate

- 4.1 Changes to the composite earners' levy rate are restricted to being multiples of 10 cents on a GST inclusive basis in order to be incorporated within the PAYE tables. This restriction means that rate changes are stepped and may require an additional rounding adjustment within the total assessment.
- 4.2 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.
- 4.3 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>
Levy for current year non-work claims	\$1.4320	\$2.3154	\$2.3606
Levy for pre-1999 non-work claims	\$0.0790	\$0.1735	\$0.1283
<b>Earners' non-work levy rate per \$100 liable earnings (GST exclusive)</b>	<b>\$1.5110</b>	<b>\$2.4889</b>	<b>\$2.4889</b>
<b>Earners' non-work levy rate per \$100 liable earnings (GST inclusive)</b>	<b>\$1.70</b>	<b>\$2.80</b>	<b>\$2.80</b>

- 4.4 While the overall 2010/11 earners' non-work levy rate has been maintained at the proposed \$2.4889 for every \$100 earnings (\$2.80 GST inclusive) used during consultation, the following key changes in assumptions have been incorporated and these have altered the make-up of the recommended non-work levy rate:
- updated allocations of Treatment Injury Account funding that resulted in a shift from the Earners Account to the Non-Earners Account. The increased funding requirement for the Non-Earners Account has been incorporated in the appropriation update provided to Department of Labour and Treasury.
  - the earnings exposure base has been revised
  - ACC has adopted a "flat rate" profile to the next ten year levy projections as compared to an "increasing" profile used to develop the consultation proposals.

4.5 The following graphs show the historic and projected levy rates and resulting solvency position for the Earners' Account based on the recommended 2010/11 levy rates and projected path to full funding.



### Examples of total earners' levy at various income levels

4.6 The following table shows the total amount of earners' levy (GST included) that would be payable at various levels of annual income, compared to the current year.

<b>Annual Gross Income</b>	<b><i>Annual levy paid based on current rates (2009/10)</i></b>	<b><i>Annual levy paid based on recommended 2010/11 rates</i></b>
\$20,800 (min salary levied)	\$353.60	\$582.40
\$45,000	\$765.00	\$1,260.00
\$60,000	\$1,020.00	\$1,680.00
\$110,018 (max salary levied)	\$1,870.00	\$3,080.00