Q&A - Cabinet decision on ACC levies for 2015/16

What are ACC levies based on?

ACC levies are reviewed each year. They are based on forecasts of several factors including injury rates, ACC performance, health care costs, wage inflation, long-term discount rates, investment returns, and the wider public interest. ACC carries out a public consultation process before making recommendations to the Minister. The Ministry of Business, Innovation and Employment also provides advice to the Minister following an independent actuarial review. Final decisions are made by Cabinet.

Why has the Government agreed to levy cuts?

ACC's has had consistently strong financial performance in recent years. This combined with favourable economic factors have resulted in annual levies for households and businesses falling by close to $1.5 billion since 2011/12. ACC's investment team has consistently outperformed industry benchmarks even through the financial crisis and market volatility. This strong performance, along with all levied Accounts reaching full funding means the Government is confident in agreeing to levy cuts.

What does full funding mean?

Full funding means that there is enough money in the accounts to cover the ongoing cost of claims. By reducing levies we can keep funding at a sustainable levy and provide some constancy for levy payers.

Why are you reviewing the residual levy?

Levies for the Work, Earners', and Motor Vehicle Accounts currently include residual portions to cover the cost of ACC's outstanding claims liability for pre-1999. These residual portions needed to be collected as a result of moving from a pay-as-you-go funding approach to a full-funding approach. When the costs of these claims were rolled into the Work, Earners', and Motor Vehicle Accounts, a 'Residual Amount' was set for each Account to be paid off by 2019.

The residual levy ensures that the legislated Residual Amount is paid off by 2019. The Residual Amount was estimated in 2009. Since then rehabilitation performance has improved, along with ACC's strong financial performance. A review of the residual levy, in the light of its role being effectively completed, is expected.

Why are the majority of the cuts in the motor vehicle account?

Last year we decided to cut levies in the Work and Earners' Accounts because they had reached full funding while the Motor Vehicle Account was only at 91% solvency (as of 30 September 2013). The Motor Vehicle Account is now nearing full funding and Cabinet considered it was time for a reduction in motor vehicle levies to slow the rate of growth in the Account. Reductions in the Work Account also reduces the rate of growth for that Account.

Why is Cabinet proposing to introduce risk rating of cars for motor vehicle levy payers in 2015?

On 1 July 2015 ACC will introduce risk rating based on crash safety rating for the 2015/16 levy year so that the costs of levies more closely reflect the level of risk associated with various types of car.

This proposal would mean that levies paid by car owners would be aligned with the safety of their vehicles. This will improve how the levy system reflects actual risk and cost of injuries.

ACC will split light passenger vehicles (cars and light vans) into groups based on their crash safety performance. The safer groups will pay less; the less safe groups will pay more. A small portion of cars will be allocated based on their year of manufacture because they cannot be accurately rated based on crash safety performance.

What about vintage and veteran cars?

These are defined as vehicles that are over 40 years old as veteran or vintage.

They are not part of the risk rating programme, but will still see a reduction. Non-petrol vintage/veteran class are going from a licence levy of $113.43 for 2014/15 to $65.87 for 2015/16. The petrol driven vintage/veteran class are going from a licence levy of $69.53 for 2014/15 to $37.42.

Why is there no cut to motorcycle levies?

Motorcycle and moped levies are currently between three to four times lower than the true costs of claims would justify. The true cost of injuries for motorcycles would require levies between $1,200 and $1,900.

We are leaving the licence levy for motorcycles at current levels, and not applying the same reductions as the average Motor Vehicle Account levy. This will not increase the costs for motorcycle owners, but better aligns the costs for motorcycle owners with their cost to the Scheme.

Motorcyclists will, however, benefit from the reduction in the petrol levy.

What is happening for the Motorcycle Safety Levy?

The Motorcycle Safety Levy will remain at $30 per annum. This helps fund motorcycle safety programmes delivered by ACC. Currently ACC funds (in some cases with NZTA):

- motorcycle and scooter rider training programme
- engineering information on building and maintaining roads to improve for motorcycle safety
- improving the safety of the Southern Coromandel loop road for motorcyclists, and
- research identifying safety initiatives including road safety barrier design and visibility of motorcycles

ACC are currently considering further programmes over the next three to five years.