Questions & Answers

2011/12 levies

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1. What ACC levy rates will apply in 2011/12 and how do these compare historically?

	2007/08	2008/09	2009/10	2010/11	2011/12
Work Account	**$1.32**	**$1.26**	**$1.31**	**$1.47**	**$1.47**
Earners' Account	**$1.30**	**$1.40**	**$1.70**	**$2.04***	**$2.04**
Motor Vehicle Account	**$204.78**	**$254.63**	**$287.00**	**$334.52**	**$334.52**

*** The rate was amended on 1 October 2010 to take into account GST rate change**

The levy rates in the Work Account are the average. The changes in levy risk groups and the introduction of experience rating will mean individual employers may have increases or decreases in their levy costs in 2011/12.

The levy rate for all earners is unchanged. The levy for motor vehicles is collected by both a petrol levy and vehicle registration fee and these are unchanged.

2. When do the 2011/12 levy rates apply from?

The 2011/12 levy rates for the Work and Earners' Accounts will take effect from 1 April 2011. Motor Vehicle Account levy rates take effect on 1 July 2011.

3. What is the reason for not increasing levies when ACC consulted on and recommended levy increases?

Levy rates are not being increased, because:

- increases would put further strain on households, businesses and motorists at a time when the recovery from the recession is quite fragile
- ACC has made significant improvements in its performance over the last two years and is on the right path to achieve sustainability
- just passing on high costs to levy payers is unacceptable and the Government wants to keep the pressure on ACC to control costs and lock in recent performance improvements.

4. What is the process for setting ACC levies?

There is a clear process for setting ACC levies.

- ACC seeks independent actuarial advice on the expected number of claims and costs in each of ACC's accounts

- ACC Board publishes proposed levy rates based on its actuarial advice for consultation (see: http://www.acc.co.nz/about-acc/consultation-have-your-say/levy-consultation/index.htm)

- ACC receives and considers submissions from the public on levies. This year ACC received 145 submissions on levies

- The Department of Labour obtains independent actuarial advice on ACC's funding policies and methodologies as well as its expected claim costs and provides advice to the Minister for ACC on recommended levy rates

- The Minister for ACC considers advice from ACC and Department of Labour and makes decisions on levies

- Regulations are drafted for approval from Cabinet and Executive Council to formally set levies in the New Year

5. Why is there an increase in the number of levy risk groups, and changes to some classification units between levy risk groups?

The increase in levy risk groups from 117 to 143 will allow for greater differentiation in the work levy. It will make levies fairer by reducing cross-subsidies from high-risk employers to low-risk employers.

These changes to the risk group structure will result in some classification units having a lower levy rate, with other classification units having an increase. This effectively reduces the level of cross subsidisation between levy payers within the Work Account, helping to ensure that levy rates are fair and equitable.

To smooth the financial consequences of these changes for levy payers, increases or decreases to rates will be capped at 15% or 2 cents per $100 of liable earnings whichever is the greater. A full listing of rate changes for each classification unit is available on the ACC website.

6. What practical examples can be given to explain the rationale and effect of the changes in levy risk groups?

a. Sheep-beef farming and dairy cattle farming classifications have historically been grouped together. These classifications are now to be split into different risk groups. The main impact is an increase for the dairy cattle farming classification which has a significantly higher cost of claims than sheep-beef cattle farming.

Classification Number and Description		11/12 LRG No.	2010/11 rate	2011/12 rate
1230	Sheep-Beef Cattle Farming	016	3.01	2.97
1300	Dairy Cattle Farming	018	3.01	3.29

b. Architectural services have historically been placed in a risk group with low risk activities such as legal and accounting services. However, their claims experience is actually similar to the classifications of surveyors and consulting engineers. Capping restricts increases or decreases to 15% or 2 cents, whichever is greater. Capping at 15% would mean the rate would not increase because a 15% increase is less than 1 cent; therefore the rate has increased by 2 cents.

Classification Number and Description		11/12 LRG No.	10/11 rate	11/12 rate
78210	Architectural Services	693	0.06	0.08
78220	Surveying and Mapping Services	693	0.33	0.29
78230	Engineering Design and Engineering Consulting Services	693	0.33	0.29
78520	Specialised Design Services (not elsewhere classified)	693	0.33	0.29

7. How has the Government been able to hold levels at current rates?

The Government has been able to hold levies at current rates because it has been successful in stabilising the ACC cost blowouts by:

- reversing some decisions of the previous government to extend ACC cover and entitlements
- appointing an ACC board that has been able to make significant improvements in ACC administration of the scheme
- ACC returning better than expected returns on its investments
- the number of ACC claims being lower than expected.

8. Are gains in scheme performance sustainable?

Only if:

- injury rates can be reduced
- return to work outcomes can be improved
- improvements in scheme administration can be locked in.

9. What is the current financial condition of the ACC scheme?

In 2009 a new requirement was introduced for ACC to provide a financial condition report annually to the Minister for ACC. The report is prepared in accordance with generally accepted practice within the insurance sector in New Zealand.

The report provides information about ACC operations, financial condition, liabilities, and funding requirements. It also discusses the implications of material risks that may affect ACC's long-term financial health. The report says:

- The financial condition of the scheme has improved but is still fragile.
- Not enough funds were previously collected to meet the scheme's liabilities
- Inflationary pressures on the cost of future scheme costs of medical, surgery and rehabilitation services had been unrealistically accounted for
- From 2005 rates of new injuries sky rocketed, prior claims reactivated, and recovery rates deteriorated and were not immediately responded to
- Uncertainties associated with costs of personal injury were not adequately accounted for or addressed
- The journey to move the scheme to a financially sustainable position will take ten years to complete, and will only occur if the Board continues to drive key service improvements, innovative practices and a focus on tight financial management.