

Questions & Answers

Introduction of experience rating in the Work Account

1. What is the experience rating framework?

The Government will introduce experience rating into the ACC Work Account. This will consist of:

- a No-Claims Discount Programme for small employers
- an Experience Rating Programme for larger employers

Public consultation on the proposal to introduce experience rating into the Work Account ran from 1 October 2010 to 29 October 2010.

For further information about the consultation see the Experience Rating consultation document on www.acc.co.nz/ERconsultation.

2. What are the objectives of experience rating?

The objectives of experience rating are to:

- provide employers with a financial incentive to prevent injuries
- encourage appropriate return-to-work programmes
- make levies fairer for businesses by ensuring that low-risk employers do not subsidise high-risk employers.

Adjusting levies to take into account a business' claims experience will encourage employers to invest in a safe workplace culture, which will protect employees and help employers contain their levy costs.

3. What research basis is there to show that experience rating will improve workplace safety?

There is considerable international research into experience rating.

Koning (2005) *'Estimating the Impact of Experience Rating on the Inflow into Disability Insurance in the Netherlands'* Utrecht School of Economics

(www.econpapers.repec.org/paper)

Morneau Sobeco (2008) *'Recommendations for Experience Rating'* Ontario

Workplace Safety & Insurance Board, Ontario (www.wsib.on.ca)

4. What does experience rating mean to a business?

Experience rating in the Work Account means that levies for individual employers reflect both their industry's and their own performance or experience in preventing injuries and claims.

5. Who will experience rating apply to?

Experience rating is a mandatory pricing change. It will apply to all employers, and self-employed people who pay levies to cover work-related injuries and meet the eligibility criteria.

6. Who will be exempt?

Businesses in the ACC Partnership Programme are excluded because they are individually responsible for the actual costs of their injuries and claims administration.

Employers/shareholder-employees are exempt from either the No-Claims Discount Programme or the Experience Rating Programmes if, for any year of the experience period, they

- have liable earnings less than or equal to the minimum liable earnings amount (\$26,520 for 2011/12) or
- are not invoiced for an ACC levy.

Exempt employers will continue to have their work levies (excluding residual portion) calculated, and invoiced, as per usual.

7. How will experience rating be applied?

The experience rating framework will take different forms, depending on the size of an employer's business:

- a No-Claims Discount Programme for small employers (a no-claims discount or a high-claims loading)
- an Experience Rating Programme for large employers.

8. How will customers know which programme applies to them?

The dividing line is how much a business pays annually in work related levies:

- The No-Claims Discount Programme applies to businesses whose work levy (excluding residual portion) in any one year of the 'experience period' which is the period of time that a business' claims history is measured, is less than \$10,000.

- The Experience Rating Programme will apply to businesses whose work levy (excluding residual portion) in each year of the 'experience period' is greater than or equal to \$10,000.

9. What claims years are included in the claims history?

A business' past claims history or experience is measured over a three year period – the 'experience period'.

For the 2011/12 levy year, the 'experience period' will be 1 April 2007 to 31 March 2010.

10. How will the No-Claims Discount Programme work?

A no-claims discount or loading will be applied to a business' levy rate (excluding residual portion) based on their number of fatality claims or weekly compensation days paid by ACC within the experience period:

- no claims discount of 10% if a business generates no weekly compensation or fatal claims
- no adjustment if workplace generates between 1 and 70 weekly compensation days paid
- levy loading of 10% if a business exceeds 70 weekly compensation days paid or any fatal claim.

It is expected that 243,000 small businesses and self-employed will receive the 10% no claims discount and 7,000 small businesses and self employed will receive the 10% loading.

11. Why is the model for the No-Claims Discount Programme now based on weekly compensation days rather than the number of weekly compensation claims (which was the proposed model in consultation) and now also accounts for fatal claims?

By calculating the no-claims discount programme by the number of days of paid weekly compensation it means there is a consistent measure across both programmes (though the application of the measure is different for each programme).

It also helps balance the aims of reducing claim frequency and improving rehabilitation outcomes. Businesses can be rewarded for being more active in participating in rehabilitation and return-to-work outcomes.

Fatalities are the worst possible result of workplace accidents. Therefore fatal claims should also be included in the measure for receiving the no claims discount or loading.

12. How will the Experience Rating Programme work?

The Experience Rating Programme formula uses two components to calculate the experience-rated discount or loading applied to an employer's work levy:

- the industry size modification
- the experience rating modification.

The maximum combined modification is +/-50% of the employer's standard industry levy rate (excluding residual portion)

The following table shows the effect of experience rating on the Work Account levy rates (excluding residual portion) for two employers in the same classification unit.

Employer	2010/11 levy rate	2011/12 levy rate	levy rate change	2011/12 ER modification	2011/12 total change	2011/12 levy rate to be applied
Employer A	\$1.22	\$1.26	3.3%	20%	23.3%	\$1.51
Employer B	\$1.22	\$1.26	3.3%	-19%	-15.7%	\$1.02

Employer A is a large employer with 10 claims with medical spend over \$500 and 530 weekly compensation days over the experience period (1 April 2007 to 31 March 2010) This compares with Employer B which is a similar sized employer and has 1 claim with medical spend over \$500 and 10 weekly compensation days over the experience period.

Employer A's claims experience is worse than the average of its industry peer group and Employer B's experience is better than average.

13. What if employers try to hide accidents to keep their levies low?

Experience rating is based mainly on moderate to serious injuries, which are difficult to attribute to a different cause or scene.

ACC will monitor any abrupt changes in a business' safety record and investigate if necessary. ACC would also educate businesses, employees and health providers in how the new system works.

14. When will experience rating start?

Experience rating will be introduced from 1 April 2011 once regulations have been made.