PIE Commentary 2024-10[1]

30th October

Bigger deficit for Christmas from the deficit buster.

Expect higher ACC levies

Susan St John[2]

Under the umbrella of the former RPRC we held various events on Accident Compensation Corporation (ACC) policy, and PIE is a member of the ACC Futures Coalition. PIE is interested in the economics and intergenerational equity aspects of social insurance. ACC is New Zealand's only example of true social insurance, paid for by payroll taxes and other charges. In former briefings papers we have challenged the idea that social insurance requires adherence to the actuarial concept of full-funding. This is issue is relevant in 2024 as the case for raising ACC levies over the next three years to meet shortfalls is made by ACC.[3]

The Government reduced taxes promising to pay for revenue lost with expenditure cuts. This task is proving very difficult, especially in a recession that, along with the deficit, may be deeper by Christmas. In October, Treasury pointed to a higher than budget night deficit for 2023/24, and ACC was blamed for a good part of the deterioration:

> *The Government's books sank further into the red in the year to June, partly thanks to higher personnel costs at Health New Zealand and soaring Accident Compensation Corporate (ACC) claims costs.*
> *The Government's operating balance before gains and losses (OBEGAL) deficit deepened by $3.4 billion in 2023/24 compared to the previous year, to $12.9b.*
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> *It was also $1.8b worse than the Treasury forecast at the Budget in May. "These are sobering numbers," Finance Minister Nicola Willis said. "We need to tidy them up and we need to impose restraint." Government's $12.9b (operating balance before gains and losses) deficit .*

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[1] [1] PIE Commentaries are opinion pieces published as contributions to public debate, and do not necessarily reflect the view of the Pensions and Intergenerational Equity Hub.
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[3] This commentary was first published in the Daily Blog, Bigger deficit for Christmas from the deficit buster. Expect higher ACC levies Daily Blog, 26th October 2024

Roughly speaking ACC's current levies and investment earnings are enough to pay for 2023/24 year's claims. Yet we are told, ACC books plunge $7.2b into deficit as state insurer proposes hiking levies. ACC's 'deficit' was largely driven by an $8.7b increase in the expected future costs of injury claims already on ACC's books.

This 'unfunded liability' has many moving parts in its calculation (aka a best guess fed by assumptions that change from time to time). Fancy actuarial calculations reflect that each client is different, with different lifespans and requirements for earnings-related compensation, rehabilitation, medical care. Law and ACC expert Warren Forster warns that panic is unnecessary as the deficit is bound to bounce around in response to a multitude of these factors.

ACC is also arguing that the number, complexity and cost of long-term accidents has risen. It has also lost a court action and will have to honour compensation claims arising from historic sex abuse cases. ACC says it will need an extra $3.6 billion to prefund this obligation. This $3.6 billion explains part of ACC's $7.2 billion deficit.

Bizarrely, the CEO of ACC claims that rises in levies are necessary so that we don't impose the burden on future generations.

> *Chief executive Megan Main said the proposed changes in levies, and reclassification of some industry and sports activities, were needed to ensure future generations were not carrying the cost of current claims.*

If we pay higher levies to fully fund these historic sexual abuse claims, the current generation carry the burden that logically belonged to generations back years ago. If these legacy claims are, in essence, an expansion of the role of ACC, why not pay their costs out of general tax revenue as they arise?

ACC is now 50 years old, but it's only been in recent times (since 2014) that full-funding has been achieved. While private insurance should be funded to cover all future liabilities for existing claims to protect claimants were the insurer to go bankrupt, ACC is ***not*** private insurance and does not need full-funding. With nearly $50 billion in the fund and the back-up of the state's power to tax, going bankrupt is not even a remote possibility, As discussed previously, the architect of the scheme, Sir Owen Woodhouse saw ACC as a social insurance scheme not as dressed up private insurance. All that is needed is a buffer of reserves for the years when there might be natural disasters or natural fluctuations. Now, it seems, decades' old claims that are newly under the ACC umbrella must also be prefunded. This stricture also makes it very difficult to expand ACC in ways that are sensible in the 21st century.

We apply full funding only in this narrow area of social security. For example, those currently retired did not pay into such a fund, and their NZ Super is funded out of current taxes.

It might be helpful to understand this better if we tried to make an estimate of the future liabilities of NZ Super. You would look at the numbers of superannuitants in each age band, (65-100+ years) take account of their average expected probability of being alive in one year's time, and then another year's time and so on, to determine the NZ Super bill for that cohort for each year until they were all dead. You would need to know the rate of NZ Super (married, single, single sharing) for each person, how the rates are projected to increase over time, and then translate future payments into today's dollars.

If your head is hurting, so is mine. I asked an actuary friend for a stab at a ballpark figure for today's unfunded NZ Super future liability. For the current population of those over 65 the estimate is $280 billion. That is the size of the fund we would need today for NZ Super to be "fully funded" for current retirees. It does not include the accrued liabilities for those under 65 and those New Zealanders living overseas who might come back to New Zealand for their retirement. The question is: "*Why on earth would you ever want to cripple the economy to put aside this sum?*" Perhaps instead of ACC's $50 billion fund we might have invested in better hospitals and rehabilitation and accident prevention?

Returning to the current issue- should the proposed ACC levies go ahead? Some of what is proposed are tweaks to the different levies for different categories of business or activity to better reflect so called 'risk'. Bizarrely, as noted ballet dancers have been singled out for enormous leaps in levies (pun intended). But motor cyclists and e-vehicles are also seen as fair game. The reliance on such a complex risk-related system is the actual problem here.

The ACC asked for feedback and received 8,700 written submissions. About 75% related to the motor-vehicle proposals with 94% against the proposed changes to the motor vehicle account, and 90% against increasing motorcycle owners' contribution.

But the most worrying increases are for employees. It is proposed that the current non-work levy for earners (including GST) of 1.6% today, will rise over the next three years to 1.83%. As discussed previously in PIE-commentary with Don Rennie, Should ACC levies be increased? and in The Daily Blog, we do not need ACC levy increases, the ACC levy is regressive with no offset as in Australia with Medicare for low income people. It is a tax by any other name and increasing it will be contractionary even if it makes government's books look better.

Former PIE and RPRC papers:

PC 2009-2: The rationale for pre-funding ACC
Susan St John suggests we need to learn from more than 35 years of ACC history, and reach multi-party agreement on the way forward with this efficient and durable social insurance scheme. (Archived Pension Commentaries 2006 - 2009 available on request from BE-bizmarketing: bizmarketing@auckland.ac.nz)

Also see St John, S. (2010). **ACC: The lessons from history** Policy Quarterly, Institute of Policy Studies Victoria University of Wellington. 6(2), 23-29.

PC 2009-1: Why does the Accident Compensation Corporation have a fund?
Michael Littlewood argues that the Accident Compensation Corporation does not need to pre-fund its obligations and should move to a "pay as you go" basis.

Comments welcome

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