PIE Commentary 2024-6

20th September

Should ACC levies be raised in 2024?

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In the face of adversity and significant demographic change, a secure and sustainable welfare infrastructure is essential to ensure equitable redistributive policies both within and across generations. The Pensions and Intergenerational Equity (PIE) Hub advocates for the equitable design of social security and social insurance schemes in New Zealand.

PIE is a member of the Accident Compensation (ACC) Futures Coalition set up to advocate for improvements to the ACC scheme. ACC is the only example In New Zealand of a pure social insurance scheme, funded by separate levies.

While it could run on a PAYGO basis, the intent has been for ACC levies collected in a given year to be sufficient to meet all the current and projected (actuarially determined) costs of those accidents. The controversies around the 'full funding' model were set out here ACC: Lessons from History.[3]

In September 2024, it was alleged that there was a shortfall of $1-2 billion in the last financial year and that levies would have to rise to fund future injury costs.[4] The equity argument is that without levy increases, the excess burden of today's injuries would be passed forward onto future generations. Rises of more than seven per cent for motorists, and more than four per cent for employers and earners were proposed and submissions were called for in ACC's proposals: consultative document[5].

Members the ACC Futures Coalition, Don Rennie and Susan St John evaluate the case for levy increases in the current economic context.

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[3] St John, S (2010) ACC: Lessons from history, Policy Quarterly Vol. 6 No. 1 Policy Quarterly VUW.
[4] ACC proposes rises in levies to fund future injury costs (1news.co.nz).
[5] Public submissions close on 9 October 2024 with final decisions to be made by the government in December.

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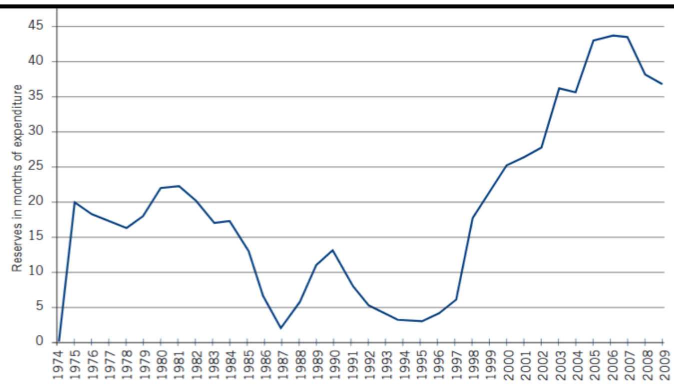
As the scheme will be a Government scheme of social insurance it must in the final resort receive the backing of the state,.. a formal system of funding ***cannot*** *be regarded as essential to the stability of the whole scheme.* (Report of the Royal Commission of Inquiry on Workers' Compensation, 1967, p25)

Figure 1 ACC reserves in months of claims expenditure



Source: St John, 1999, p.161, and ACC annual reports, 1997-2009

St John (2010) sets out the history of funding the ACC and Figure 1 shows how since the inception of the scheme, reserves held, in terms months of coverage of current claims expenditure have varied widely over time. This variability has reflected prevailing political views on PAYGO v Funding.

Fully funding the work injury account, the earners account, and the motor vehicle account, was seen as necessary in the late 1990s when the Shipley government attempted to privatise ACC by allowing private insurers to compete with ACC. While privatisation was reversed in 2000 by the Labour government, the requirement to fully fund was not and funding was pursued aggressively under the 2008 National Government. The 2023 data[6] on reserves ($47 billion and claims ($6.191 billion) show that Reserves now represent (95 months) of claims. The relative level of funding is twice that of the early 2000s.

Table 1 Consolidated statement of comprehensive revenue and expenditure (ACC Annual Report June 2023, p136)

$M	Note	Actual 2023
Levy revenue	3	**5,954**
Claims paid	6.1	6,191
Claims handling costs	5.1	579
Increase (decrease) in outstanding claims liability	6.3(a)	1,265
Total claims incurred	6.1	**8,035**
(Decrease) increase in unexpired risk liability	6.6	(10)
Other underwriting costs	5.1	151
(Deficit) surplus from underwriting activities	6.2	**(2,222)**
Investment income (loss)	4	3,259
Investment costs	4 & 5.1	(126)
Other revenue		17
Other costs	5.1	(17)
Net surplus (deficit)		**911**
Total comprehensive revenue and expense for the year		**911**

The number of injuries has been rising, as has the cost of treating them and rehabilitation.

Table 1 shows that in 2023 levies were insufficient to cover claims. The increase in outstanding claims liabilities made this worse.

Nevertheless, there is an overall surplus of nearly 1 billion once investment income is counted.

ACC has been set up and operates like a private insurance company and applies private insurance rules and practices to the way it operates with emphasis on saving costs. The

[6] ACC Annual Report 2023

latest emphasis on actuarial full funding reflects this view of ACC but is not the way it was initially conceived by Sir Owen Woodhouse.

For example, the differential levy system is based private insurance thinking and is itself an anachronism. ACC is not insurance, it was set up to replace the Workers Compensation Act and the common law right to sue for damages. Prior to 1974 the Workers Compensation Acts classified industries on the basis of risk at the request of the insurance industry. Injured workers had the option of accepting minimum compensation entitlements or suing for common law damages. In order to calculate premiums, insurers needed to know the risk. When, in 1974 the right of accident victims to sue for damages for personal injury was abolished, the classification of all industries based on risk ceased to be relevant.

Currently, only work-related injuries are classified and employers and the self-employed pay variable levy rates based on the risk classification. Non-work injuries are not classified in industrial classifications and workers pay a flat rate of levy although the same compensation is paid as for a work injury. Experience rating for levies is likewise a hangover from the old insurance-based days and has little justification. The small number of large employers and the large number of small employers make any claim for better or worse experiences very hard if not impossible to determine as outlined over the years by numerous critics.[7]

We welcome that the consultative committee has acknowledged problems with experience rating:

> "Should ACC remove the No Claims Discount and change the Experience Rating programme? The No Claims Discount and Experience Rating programmes are not bringing the benefits relating to injury prevention and faster recovery that we thought they would. We propose two options for change. p 13.

Rather than tinker with options, it would be preferable to fully abandon experience rating and the differential levy system.

Should levies be raised to cover 'shortfall?

Complex issues are taken into account in the three-yearly levy reviews to reflect both a desire to set levies to reflect risk more accurately, and to make sure the ACC remains fully funded. The appendix sets out the issues that inform the proposed increases for the three ACC accounts to 2027/28 as viewed by the ACC[8].

Current proposals for increases to levies acknowledges some households and businesses will find it difficult. ACC's CEO said "they were necessary to get ACC closer to being able to fully fund future costs with a shortfall between $1 and $2 billion."

> The proposed increases would affect all levy groups, with some variations within each group as certain vehicles or activities were seen as more or less risky. The average work levy rate would increase from the current rate of $0.63 per $100 of payroll to $0.66 in 2025/26; $0.69 in 2026/27; and $0.72 in 2027/28.

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[7] For example, see Lamm, F. McDonnell, N., & St John, S. (2012) The Rhetoric versus the Reality: New Zealand's Experience Rating, New Zealand Journal of Employment Relations 38(2):21-40

[8] Overview » Shape your ACC

> The earners' levy would increase from the current rate of $1.39[9] per $100 wages to $1.45 in 2025/26, $1.52 in 2026/27; and $1.59 in 2027/28. The motor vehicle rates would increase from $113.94 per vehicle currently to $122.84 in 2025/26; $131.94 in 2026/27; and $141.69 in 2027/28.
>
> ACC said the proposed increases would cost between 17 cents a week extra for a retired couple with one car in the first year, for households with multiple vehicles $1-$2 and $40 more a week, and for medium sized businesses as much as $10 a week.

Under the insurance approach, ACC spends much time and resources on complex actuarial calculations whose underlying assumptions are always contestable. But given there will not be an overnight change to the fundamental expensive insurance-based structure of ACC the question is- should levies be increased as ACC suggests?

If ACC functioned as a publicly administered and delivered social insurance scheme distinct in character from a private insurance company many complex calculations and costs would be avoided. The real reasons for any underperformance should be investigated before ACC passes preventable costs forward into levies.

Warren Forster[10], legal expert on ACC, argues that the so-called blow-out is attributable to poor rehabilitation practices. Those in turn are due to changes to case management in recent years that have been a failure and are now being reversed. The ACC Futures Coalition also suspects that a failure to adequately invest in *prevention* lies at the heart of the problem.

Moreover, ACC is exceptionally well-funded, at $47 billion ad adherence to a rigid fully funding model is inappropriate especially for these uncertain economic times. An increase of $1-2 billion in levies would be procyclical and further hurt an economy already reeling from several years of natural disasters, the pandemic, cost of living crisis and a recession. The reserves should be allowed to fluctuate between a band over the economic cycle, while any under-performance issues are addressed. There is no danger of putting the scheme in jeopardy.

While a case may be made for adjustments to the way motorcycles are levied, sports and e-vehicles to achieve other goals such as equity and efficiency, **ACC should not request the government to approve a general increase in any ACC levies.**

PIE welcomes commentary feedback.

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[9] With GST this is 1.6%.

[10] See RNZ, ACC researcher on proposal to increase levies | RNZ, 12th September

Appendix

The ACC case for the planned increases[11]

Every three years everyone in Aotearoa New Zealand has a chance to give feedback on the levies that ACC charges to pay for the support and services provided for injured people.

Levy rates need to keep pace with rising costs and at the same time ensure that the amount of assets held by ACC is sufficient to pay for the future costs of claims. This ensures ACC do not need to raise more money from future levy payers to pay for the cost of today's claims.

The future costs of accidents that have already occurred are re-estimated every three years by actuaries, Taylor and Fry to see if the fully funded goal is met for each account

Where there is a surplus of assets in an Account, ACC can discount the levy, by using the surplus to pay for some of the cost of claims. A surplus does not stop levy rates going up and the amount of discount will reduce over time as the surplus is used up.

Reasons behind the need for increased levies — things have changed since 2021.

Compared to the last levy consultation in 2021, the costs of injuries for the 2025/26-2027/28 levy years are expected to be higher due to an increase in the:

- numbers of injuries requiring time off work
- costs for funding of ambulance and public health acute services (PHAS)
- recovery time required before the worker can return to work
- number and cost of sensitive claims in the Earners' Account (mental injury caused by sexual violence)
- inflationary pressures in the past three years.

Most people recovery relatively quickly from their injury. However, others will need support for longer, possibly the rest of their lives. For example, over 300 people injured in 1974 are still receiving support from ACC.

ACC proposes that levies in the three levied Accounts should be changed as set out in the following table.

[11] Adapted From Overview » Shape your ACC

	Motor Vehicle Account			Work Account			Earners' Accoun (including contribution to Treatment Injury)		
$million	2025/26	2026/27	2027/28	2025/26	2026/27	2027/28	2025/26	2026/27	2027/28
Cost of supporting recovery	969.8	1,013.2	1,055.0	1,407.1	1,517.6	1,595.2	3,906.5	4,147.6	4,439.3
Operating costs	4.5	4.5	4.7	59.2	59.3	60.6	15.6	15.7	16.1
Total funding for new claims	974.3	1,017.7	1,059.7	1,466.3	1,576.9	1,655.8	3,922.2	4,163.3	4,455.4
Funding adjustment for current funding position*	-295.7	-276.1	-255.5	-186.0	-183.5	-168	+295.6	+280.8	+292.1
Levy required for the year	**678.6**	**741.7**	**804.2**	**1,280.3**	**1,393.4**	**1,487.8**	**4,217.8**	**4,444.1**	**4,747.4**
Accepted funding shortfall from FPS caps	-152.2	-169.4	-182.2	-210.7	-220.9	-212.5	-1,081.5	-997.6	-992.0
Proposed levy	**526.5**	**572.3**	**662.0**	**1,069.6**	**1,172.5**	**1,275.3**	**3,136.3**	**3,446.4**	**3,755.4**
	$ per vehicle			$ per $100 liable earnings			$ per $100 liable earnings		
Current rate	$113.94			$0.63			$1.39		
Proposed levy rate	**$122.84**	**$131.94**	**$141.69**	**$0.66**	**$0.69**	**$0.72**	**$1.45**	**$1.52**	**$1.59**
Annual change	+7.8%	+7.4%	+7.4%	+4.8%	+4.5%	+4.3%	+4.3%	+4.8%	+4.6%
	Comes into effect 1 July each year			Comes into effect 1 April each year			Comes into effect 1 April each year		

- **A negative number indicates ACC is using surplus assets to discount levies needed. A positive number is used when the Accounts assets are less than future claims costs and we need to rebuild the level of assets to ensure the Account has sufficient assets.**