The ACC Concept

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Why 'Pay as You Go'?

The purpose of the ACC scheme, as seen by the Royal Commission, was to provide equal help for all equal injuries. This involved not one but *two* critical areas. First, there had to be a new and acceptable system to replace one that most accepted was flawed; and secondly, that needed to happen without demands for large sums of money.

The cost problem was answered by the Report itself. The money was already there. The Commission thought that far more efficient use could be made of the amounts already paid to the compulsory insurance schemes supporting work and highway injuries.

The change was done by substituting a single, state welfare service for the earlier systems; and converting the previous insurance premiums to taxes levied on wages and vehicles.

Under the old arrangements, only $50 or $60 of each $100 collected as premiums had ever reached the injured.

The recommended welfare system could return as much as $90.

And so it proved to be.

All this is a matter of administrative efficiency, the fifth principle in the Royal Commission's Report. This is a matter of absolute importance.

To provide the income needed by *any* social programme ordained by the State - social welfare, health, education – the obvious answer is to collect each year what has to be paid out in that year. The method is given a tidy name, 'Pay as you go'.

But commercial insurers are unable to adopt that simple solution. They must demonstrate an ability to meet not only the immediate needs of the injured but all future, continuing needs as well.

So they must collect *today*, and keep invested, amounts sufficient to meet all possible continuing liabilities of each one of today's accidents.

Under a commercial insurance model, the assessment of needed future funds demands a remarkable crystal ball. And *always*, the assessment is more expensive than Pay as You Go.

At the beginning of the premium year, the questions the commercial underwriter must answer include –

- the likely number of accidents in the coming year;

- for how long will each be on the books?
- what will be the varying future costs of medical and other treatments?
- what of the effect of inflation?
- what allowance should be made for the future risks of investment; of administrative costs; of legal expenses?
- there must be a margin for profit;
- and an added calculation on the side of actuarial caution.

Such are the complications of the funded system. When put against 'Pay as You Go' it is the reason for the large cost differences between social welfare and commercial insurance arrangements.

The problem today

The 1967 Report spoke of its purpose as the delivery of a system of social insurance to provide for injured persons. But the 'social' and the hyphen have been ignored by those who imagine the ACC is merely commercial insurance under another name.

And after about 13 years, this State welfare system suddenly became far more expensive because it became a funded system. It was a grave mistake.

Immediately, the cost advantage and accuracy of Pay as You Go disappeared, without which it would have been impossible to initiate the scheme. As a result, both employers and owners of vehicles are now required to pay much larger sums than are necessary.

There are even suggestions that commercial insurers should be invited back – despite the likely lack of interest of any New Zealand-based company.

All this has not been, but should be, made plain to those who are being asked to meet the unnecessary increases in levies.

The future

The funded approach should cease. If that were to happen –

1. The overall amount collected as levies could be greatly reduced.
2. They could be averages as the 1967 Report recommended.
3. The present individual accounts (for example, the Work Account, the Earners' Account and the Motor Vehicle Account) could and should be amalgamated.
4. The way would once more be open to extending the system to sickness incapacity as proposed by the Law Commission in 1967.

There is then the matter of the accumulated funds held at present in hand (about $12 billion). Those excess funds now held as investments would be available as a necessary contingency reserve against the risk of major disaster, with any appropriate balance available to underwrite reduced levies.