Under new governance - ACC's future looking brighter

New Zealand's accident compensation system has come through many setbacks during its 40-year history.

This week marked a positive milestone as the first levy-setting steps took place under new legislation that appears to have put it on a stronger footing.

ACC depends on the confidence of levy-payers for its success.

Over the years that confidence has been strained by policy reversals and political interference. Employers paying into the scheme have had particular concerns about lack of transparency in the management of funds.

Legislation passed last year – the Accident Compensation (Financial Responsibility and Transparency) Act – promised to reduce the risks associated with political control of levy setting.

The latest consultation to set the levy amounts for 2017-19 shows those risks may have been reduced.

The proposed levies for the next two years are lower than in previous years across most ACC accounts.

This reflects the fact that most accounts are now over-funded - containing more funds than needed to reach 'fully funded' status. It would appear that excess funding is now being gradually returned to levy payers.

The change to a financially secure, fully funded scheme has not come easily.

ACC initially had a pay-as-you-go funding model which collected levies each year to pay for the cost of claims of that year.

While a straightforward approach, this form of funding did not support the actuarial purpose that ACC was designed for.

ACC was meant to be an all-inclusive insurance scheme, not a pay-as-you-go welfare scheme.

The pay-as-you-go approach meant ACC's costs would keep rising over time with each new claimant added to the pool of lifetime costs.

In contrast, the fully-funded approach requires payment of annual costs apportioned across the lifetime cost of each injury – an actuarial approach preventing an otherwise inevitable growth in costs over time.

ACC changed to a fully funded model in 1999 but in ensuing years became bogged down in debt, following widening entitlements and cost-blowouts, culminating in 2009 with a $4.8 billion loss.

The years since 2009 have seen a gradual recovery from that position and a build-up in funds to a point where the scheme has become over-funded rather than under-funded.

ACC has always been vulnerable to claims of political expediency in levy-setting.

If the scheme becomes under-funded, there is suspicion that levies are being kept low to keep favour with voters. If it becomes over-funded, there is suspicion the fund is being used to help manage wider economic concerns. Cynical voters may suspect a pattern of reduced levies in the year before an election and higher levies after.

The legislation passed last year was designed to reduce such political risks. The new Act requires more transparent management of funds in the various ACC accounts, a more long-term focus, and more stable levies.

It would seem that progress is being made towards these goals, although some risks remain.

Levy-setting is now to be conducted every two years instead of annually. This will provide more stability and certainty, aiding business planning.

A long-term focus is evident in ACC's stated intention to improve the reward system for good workplace safety outcomes.

And more transparent management of funds is now evident in the levy-setting for most ACC accounts, with the exception of the motor vehicle account where motorbike accident costs continue to be heavily subsidised by other road users.

In the interests of honest accounting this subsidy should be discontinued, either by requiring these costs to be borne by motorcyclists as a group within the ACC system, or by funding them separately from general taxation.

It is essential that ACC refrains from subsidising one group at the expense of others if levy-payer confidence in the scheme is to be maintained.

Our ACC system is unique in the world. It is a distinctive insurance-based model delivering social welfare-type outcomes, with reasonable success.

Against the odds it has survived financial and political threats and now appears to be on a more sure footing than in the past.

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