

Business NZ recommendations to incoming Government:
ACC

The primary focus of an accident insurance scheme should be to provide a framework for reducing the number and severity of accidents. This requires funders, claimants, health professionals and insurers all having strong incentives to minimise accidents and associated costs. State monopoly reduces those incentives and raises the risk of ACC becoming an employer-funded social welfare scheme. Business NZ recommends introducing competitive elements to ACC during this parliamentary term, restricting government's role to requiring minimum service and delivery standards within a risk-based, 24-hour universal no-fault system.

Problems with the current system include:

- Lack of economic principles underpinning premium-setting
- No experience rating of premiums
- Unnecessary retention of unused funds e.g. an overfunding of \$330 million in the Work Account
- An unnecessarily high risk margin for the Work Account (11.7%); unnecessary because the overfunding of the Work Account means a funded risk margin is not required and because a state monopoly insurer with the power to tax in any case faces little risk
- Mounting levy costs, with the Work Account levy rate projected to increase 62% by 2014
- The lack of real price signals resulting from the decision to smooth premiums over a five-year horizon
- ACC's low discount rate, given its traditionally high investment returns with no tax payable on interest received
- No realistic scope for smaller employers (the majority) to partially self-insure through the Accredited Employer Programme
- Significant cross-subsidy in the Motor Vehicle account where levies for motor cycles are disproportionately low given the high number of motorcycle accidents and associated claim costs
- Lack of effective work capacity testing

- Inadequate monitoring of claimants who may have recovered capacity to work
- The proposal (ACC Minister 11 September 2008) to push out the date (by 5 years to 2019) for full funding of residual claims, reducing the incentive to assist those claimants back into employment or on to a more appropriate benefit
- Lack of economic principles underpinning treatment of the 'tail' which, being costs incurred in the past, should logically be funded out of general taxation rather than by current and future employers

Business NZ recommendations:

1. Require ACC to allow the private sector to take on the risk of managing the liabilities and assets of ACC Accounts and to offer treatment and rehabilitation services, while retaining a risk-based, 24-hour universal no-fault system
2. Retain Governmental role in monitoring and enforcing minimum standards for service and delivery

Alternatively, if a state monopoly is retained:

1. Require an independent assessment of the principles underpinning premium-setting, premium-smoothing, cross subsidies and risk margins
2. Fund all pre-1999 residual claims out of general taxation
3. Require ACC to reinstate experience rating within the Work Account either as a stand-alone system or in conjunction with the Workplace Safety Management Practices (WSMP) scheme
4. Require ACC to introduce experience rating in the Earners and Motor Vehicle Accounts
5. Require ACC to return overfunded levies in the Work Account
6. Require ACC to introduce an objective work capacity test

For information & dialogue contact Business NZ
 Phil O'Reilly Chief Executive
 04 4966555 poreilly@businessnz.org.nz
www.businessnz.org.nz