2011 ACC Forum

Stocktake Group Report, Government proposals and the Accredited Employers

Mark Weaver │ Principal
26 August 2011
Contents

• Overview of ACC accounts – in particular figures from WA
• Conclusions and key recommendations of the Stocktake Group
• What is the Government now proposing
• Need to cement in changes to achieve long term sustainable outcomes
• Accredited Employers Programme
## Overview of ACC accounts as at June 2010

### Work
- **Workplace accidents**
  - Revenue $1.0 billion
  - Deficit $1.4 billion

### Motor
- **Motor accidents**
  - Revenue $0.9 billion
  - Deficit $3.7 billion

### Treatment Injury
- **Medical injury**
  - Revenue $0.3 billion
  - Deficit $1.4 billion

### Earners’
- **Employees non work**
  - Revenue $1.4 billion
  - Deficit $0.9 billion

### Non- Earners’
- **Non workers**
  - Revenue $1.0 billion
  - Deficit $2.9 billion

### Totals
- **Revenue** $4.6 billion
- **Deficit** $10.3 billion
Work Account

- Projected number of claims for Accident Year 2012/12

<table>
<thead>
<tr>
<th>Claim Type</th>
<th>&lt;25</th>
<th>25 to &lt;40</th>
<th>40 to &lt;55</th>
<th>&gt;=55</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serious Injury</td>
<td>3</td>
<td>6</td>
<td>7</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>Elective Surgery, No Weekly Compensation</td>
<td>50</td>
<td>230</td>
<td>480</td>
<td>350</td>
<td>1,100</td>
</tr>
<tr>
<td>Elective Surgery &amp; Weekly Compensation</td>
<td>290</td>
<td>970</td>
<td>1,600</td>
<td>850</td>
<td>3,710</td>
</tr>
<tr>
<td>Weekly Compensation, No Elective Surgery</td>
<td>2,200</td>
<td>5,200</td>
<td>4,500</td>
<td>2,000</td>
<td>13,900</td>
</tr>
<tr>
<td>Other Entitlement</td>
<td>610</td>
<td>330</td>
<td>1,190</td>
<td>440</td>
<td>2,570</td>
</tr>
<tr>
<td><strong>Total Entitlement</strong></td>
<td>3,200</td>
<td>6,700</td>
<td>7,800</td>
<td>3,600</td>
<td>21,300</td>
</tr>
<tr>
<td><strong>Medical Only</strong></td>
<td>28,200</td>
<td>50,700</td>
<td>52,200</td>
<td>28,700</td>
<td>159,800</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>31,400</td>
<td>57,400</td>
<td>60,000</td>
<td>32,300</td>
<td>181,100</td>
</tr>
</tbody>
</table>

- Projected claim frequency per 1,000 workers

<table>
<thead>
<tr>
<th>Claim Type</th>
<th>&lt;25</th>
<th>25 to &lt;40</th>
<th>40 to &lt;55</th>
<th>&gt;=55</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serious Injury</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>Elective Surgery, No Weekly Compensation</td>
<td>0.20</td>
<td>0.43</td>
<td>0.77</td>
<td>0.91</td>
<td>0.61</td>
</tr>
<tr>
<td>Elective Surgery &amp; Weekly Compensation</td>
<td>1.11</td>
<td>1.81</td>
<td>2.60</td>
<td>2.21</td>
<td>2.06</td>
</tr>
<tr>
<td>Weekly Compensation, No Elective Surgery</td>
<td>8.37</td>
<td>9.66</td>
<td>7.27</td>
<td>5.24</td>
<td>7.71</td>
</tr>
<tr>
<td>Other Entitlement</td>
<td>2.28</td>
<td>0.62</td>
<td>1.94</td>
<td>1.14</td>
<td>1.43</td>
</tr>
<tr>
<td><strong>Total Entitlement</strong></td>
<td>11.97</td>
<td>12.54</td>
<td>12.61</td>
<td>9.51</td>
<td>11.83</td>
</tr>
<tr>
<td><strong>Medical Only</strong></td>
<td>106.00</td>
<td>95.00</td>
<td>85.00</td>
<td>75.00</td>
<td>88.95</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>117.97</td>
<td>107.54</td>
<td>97.61</td>
<td>84.51</td>
<td>100.79</td>
</tr>
</tbody>
</table>
Work Account – More figures

- Projected Work Account Levy rates

![Graph showing projected Work Account Levy rates](image)
Work Account – More figures

- Indicated Work Account Funding Position

Stocktake Group - conclusions

- Current scheme fatally flawed
- Structural weakness led to 40% of cost blow out
- Competitive private delivery is ‘necessary’, ‘feasible’ and ‘has merit’
- Cover provided by Work, Earners and Motor Vehicle accounts is insurance. So set them up with greater insurance characteristics will improve performance. Important distinction to break current “entitlement culture"
- Other two accounts more in nature of social benefits
Stocktake Group – key recommendations

• Introduce competition to Work April 2012 and Motor Vehicle Account April 2013

• Use more risk sharing and experience rating in all accounts

• Change status from Crown entity to an SOE with capital to manage. ACC is 5th largest financial institution in NZ

• ACC must set its own levy rates and not the Minister
Risk sharing options to explore

- **Earners Account**
  - Higher co payment
  - Vary levy rate by age and gender
  - Levy adventure and sports clubs

- **Motor Vehicle Account**
  - Vary levy by age and gender

- **Work Account**
  - No claims bonus for small employers
  - Expand ACCPP
  - Increasing 1 week period where employer payments weekly compensation
  - Introduce excess for medical costs
Government Proposals

• Looking solely at Work Account

• Objective is to reduce accidents, improve rehabilitation rates and reduce operating costs

• Improve access to ACCPP from April 2012:
  • Greater range of risk sharing options
  • Reduce compliance costs

• Choice in Work Account:
  • ACC remains as a Crown entity
  • Employer can choose to seek cover with private insurer
  • ACC is default insurer
  • Independent disputes resolution process
  • Impact of change on health sector kept to a minimum
    • Single claims lodgement unit to direct all initial claims to relevant insurer including ACC
    • Minimum prices and conditions for treatment services that insurers must meet unless they agree otherwise with providers
Need to cement in changes to achieve long term sustainable outcomes?

- There has been a major turnaround in the financial results for ACC. This has reduced levies proposed for 2012/12

- The level of the turnaround can be seen by comparing the projected levies for the 2019/20 year with those proposed now with those proposed in 2009
  - Work Account $0.84 cf $1.31 per $100 liable earnings
  - Earners Account $1.48 cf $2.84 per $100 liable earnings
  - Motor Vehicle Account $192 cf $301 Total annual cost to motorist

- But need to retain this result. How can we achieve this?

- The “actuarial pricing report” talks of how the Scheme benefits could be increased if finances improve.
Value of the Accredited Employers Scheme

• The direct financial commitment heightens involvement from employers to injury prevention and injury management

• Leads to greater focus in developing a culture of safety

• Lowers costs of production to employer

• Employers talk of savings through reduction in production disruption, costs of overtime and of recruiting and training new staff
Accredited Employers – performance

The results of an analysis of the claims data for all employers from July 2000 to December 2009 showed for average claim size with 10% WSMP:

- For short duration claims – 3 months
  - AE had 6% lower costs than SE
- For medium duration claims – 4 to 24 months
  - AE had 22% lower costs
- For long duration claims - 25 months and above
  - AE had 51% lower costs
- AE costs lower where have 20% WSMP
- Claims duration for SE shorter than for AE
Useful reading

• ACC FCR report 2010

• Stocktake Group Report
Melville Jessup Weaver

- Consulting actuarial firm
- Established 1992
- Global alliance partner of Towers Watson
- Owned by partners. NZ based with a global reach
- Practice areas are:
  - Insurance
  - Asset consulting
  - Superannuation schemes
- Locations Auckland and Wellington
- Employee count 28
- Web address www.mjw.co.nz
The myths from last time (1999-2000) dispelled and the truth told:

- Insurers did not “loss lead” to gain market share.
- Insurers didn’t lose money or have terrible experience.
- No increase in disputes or declined claims.
- No evidence that for just one year when with private insurers Employers transferred claims from the Employers account to the Earners Account.
- Insurers and the National Government have not worked together on the Government’s ACC proposals.
- The Government is NOT proposing to privatise ACC.
What could be improved upon from last time (1999-2000) - some solutions

- Identification of the liable insurer was difficult for Medical providers leading to extra work and slower invoice payment.
- Insurers used different disputes resolution services.
- Injury prevention and education were minimal.
- Notional incentive for Employers to shift claims from the Employer account to Earners account.
- Full ACC data should be released NOW.
Without a more level playing field the Governments “choice” objective may not be achieved.

- Insurers will see the market as so inequitable – won’t invest appropriately or play at all.
- If any insurer does play, they will have to select the best risks to compete with ACC.
- If ACC competes under the same rules as private insurers, no need to fear selection or expanded AEP.
- Insurers can’t and won’t use other Insurance products to subsidise ACC premiums.
- Any ACC account surplus’s should be applied to reducing the deficits not current levies.
Is there a need for an efficient Claims Clearing House? Absolutely

- Independent with broad stakeholder input.
- Online
- Unique identifiers – of the Employers policy for the benefit of the employees.
- Process and pay simple treatment claims.
- Invoices received, distributed to insurers and paid online.
- Privacy Act- Compliant